POST-WAR ECONOMIC POLICY AND PLANNING

HEARINGS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN REDEVELOPMENT OF THE

SPECIAL COMMITTEE ON POST-WAR ECONOMIC POLICY AND PLANNING

UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

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PART 13

HOUSING AND URBAN REDEVELOPMENT

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POST-WAR ECONOMIC POLICY AND PLANNING

FRIDAY, JANUARY 19, 1945

UNITED STATES SENATE, SUBCOMMITTEE ON HOUSING AND URBAN REDEVELOPMENT OF THE SPECIAL COMMITTEE ON POST-WAR ECONOMIC POLICY AND PLANNING,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10:30 a. m., in room 312, Senate Office Building, Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Ellender, and Buck.

Senator TAFT. The committee will come to order.

The first witness is Elbert S. Brigham, president, National Life Insurance Co.

STATEMENT OF ELBERT S. BRIGHAM, PRESIDENT, NATIONAL LIFE INSURANCE CO., MONTPELIER, VT.

Mr. BRIGHAM. Gentlemen, my name is Elbert S. Brigham, Montpelier, Vt. I am appearing at the invitation of your chairman, Senator Taft, who has requested me to express my views on certain phases of the so-called American housing problem.

I am president of the National Life Insurance Co., Montpelier, Vt., a company having assets of approximately $291,000,000, of which approximately $131,000,000 is invested in loans insured by the Federal Housing Administration, under the various sections of the National Housing Act.

Any consideration of the future of housing and mortgage financing necessitates that attention be given to interest rates and their relation to mortgage activity. Naturally borrowers desire to obtain funds at the lowest rate possible, while lenders desire to obtain the highest return available in the market at a given time. In any case, both parties deserve a fair rate as determined by the market.

All money rates during recent years have been the lowest in history for several reasons. In the first place, the reserve position of our banking system has been unusually strong, due in part to gold importations prior to our entry into the war. Secondly, the Federal Government has exercised almost absolute control over the money markets and has freely loaned its credit to finance private industry, because of the desire to keep rates low and thus make it possible to finance the war at low interest cost.

The interest rate on mortgage loans has been influenced by these circumstances, as well as by other factors, such as the limited number of new security issues and the restrictions on building during the war period.

One consequence of low interest rates is a series of suggestions, many coming from realtors, that interest rates should be still lower and should be established and maintained at fancifully low levels by governmental action.

No one questions the good intentions of the persons making these suggestions relative to governmental control of interest rates on mortgage loans, but consideration should be given to the rights of lenders—the savers of the Nation—as well as the borrowers, and to the fact that the majority of the savers are dependent upon the income from their savings to support them when incapacitated for work.

Interest rates, for instance, are an important factor in the cost of life insurance. Let me illustrate this by showing in the following table the effect that interest earnings have upon the annual cost of a $1,000 ordinary life policy issued at age 35:

Interest assumption:	*Annual premium*
3 percent	$21.08
2 percent	23.80
1 percent	27.07
0 percent	30.97

It is evident that interest earnings computed at 3 percent on reserves account for $9.89 annually in reducing the cost of this policy.

So, to the extent Government or any other agency interferes with interest rates to benefit one group, say, to provide low-cost housing, another group is in effect taxed to pay the bill. One group may have the benefit of low-cost housing, and another group may be denied the standard of housing to which it is entitled.

The over-all effect on life insurance is significant. For a group of 49 United States legal reserve life insurance companies, which, at the end of 1943, held 91 percent of the assets of all such companies; net investment earnings on mean ledger assets dropped from a rate of 5.03 percent in 1930 to 3.29 percent in 1943. This decline in earnings has meant that during the 13 years, 1931 to 1943, inclusive, the net investment income of all United States legal reserve life insurance companies was over $4,000,000,000 less than it would have been at the 1930 level. For 1943 alone, net investment income was approximately $600,000,000 less than it would have been at the 1930 rate. This income reduction for 1943 is about $200,000,000 greater than the amount of dividends actually paid and credited to policyholders and is a sum over $250,000,000 more than was paid for initial premiums on new insurance.

There are in this country 70,000,000 policyholders, providing their own social security through life insurance. These people are paying the price for low interest rates.

While mortgage interest rates currently are low, a substantial and satisfactory spread must exist at all times between the rate on mortgage loans and that on Government bonds, or mortgages cease to be attractive to investors. Let us take, for example, loans with 4½-percent interest rate. From the gross rate the investor must deduct—

1. His own expenses of buying and handling the loans which may approach one-half of 1 percent.

2. The investor must amortize or write off any premium paid, and the period of amortization must be relatively short because of the short average life of loans.

3. If they are monthly payment loans, or even quarterly or annual payment loans, the expenses of servicing are likely to equal one-half percent or possibly three-fourths percent.

4. The investor also must make some allowance, one-fourth percent or one-half percent, for losses which invariably are bound to result, no matter how carefully loans may be selected.

Thus, the investor ends up with a probable net return of approximately 3 percent. If the loans bear an interest rate of 4 percent, his net return falls below 3 percent.

Instead of buying mortgage loans, the investor can purchase long-term Government bonds at 2½ percent with no risk of loss. The bonds can be registered, and on each interest date the investor receives a check. He has no problem of servicing, personnel, foreclosure, the liquidation of acquired real estate, or any of the other problems inherent in mortgage lending. Permit me to remind you again with great emphasis that the return on mortgage loans, and I refer now to the net return, must be attractive to investors in order to induce them to purchase loans. Prospective mortgagors are in constant competition with other borrowers, including railroads, industrial organizations, and all other seekers of credit. Institutional lenders, quite naturally, in fulfillment of the trust imposed upon them to obtain the highest possible yield commensurate with safety, will commit their capital to the investments affording greatest return.

One of the great uncertainties in looking ahead to the construction and the financing of homes and other buildings is the part which Government may or may not play in the future through the provision of so-called public housing. This uncertainty is aggravated when housing becomes a social goal, regardless of the ability or lack of ability of a project to sustain itself economically, and must rely upon Government subsidy for its support. Housing then becomes a means either of pump-priming or social reform, in the latter's larger sense, and gives rise to a number of the questions frequently associated with each of these processes. Investors, naturally, wonder whether housing has entered an era in which its otherwise promising future is to be obscured by threats of governmental subsidy and competition.

This becomes especially pertinent if resources of the public treasuries, thought by some to be unlimited, stand ready to finance projects and if managers of these projects are not expected to produce economically successful results. A large volume of subsidized housing also becomes an influential factor in a local housing market and may affect values adversely although an equal number of old units is demolished.

The objective of low-cost housing is to provide housing for so-called low-income groups at prices they can afford to pay. This objective is accomplished not by the production of improved housing at lower cost but by subsidies in the form of low interest rates, by unduly long amortization, by contributions by a Government agency with money raised by taxation, and by local tax concessions.

The methods used and the results obtained may be summarized as follows:

A low-cost-housing corporation organized under State laws obtains its financing by the issuance of two classes of bonds.

A bonds are issued to the extent of at least 10 percent of the cost. These are sold to private investors, are exempt from all taxes, and

for this reason command a low rate of interest, averaging 2.08 percent in 1943.

B bonds are issued to the Federal Public Housing Authority to complete the financing out of money appropriated for this purpose by the Federal Government. These bonds average to constitute two-thirds or more of the financing. The rate charged the project is one-half of 1 percent above the going Federal interest rate having a maturity of 10 years or over. The average rate paid by housing projects on B bonds in 1943 was 2.65 percent, or, after allowing for the one-half of 1 percent margin, but 0.15 over the interest rate on 10-year bonds. The term of the B bonds is 60 years, but as an average proposition amortization payments do not begin for about 23 years. No principal payments are made upon the B bonds until the A bonds are paid off. Hence, in effect, the Government takes a second mortgage.

The average rate on the complete financing was 2.45 percent, or less than the Government is paying on its 27-year bonds just issued, while the security obtained for its loans to housing projects in the form of B bonds is assumed to have a life of 60 years. This assumed life is longer than any prudent trustee would consider loaning on an apartment building which may not last that long.

Senator TAFT. You say there is a period of 23 years before there is any amortization on the Housing Authority bonds?

Mr. BRIGHAM. Yes, about 23 years. That would vary with different projects, but the average would be 23 years, I understand.

Senator TAFT. Before that you mean they pay off the 10 percent?

Mr. BRIGHAM. Yes.

Senator TAFT. That is the amortization for the first 23 years?

Mr. BRIGHAM. Yes, on the A bonds.

Senator TAFT. Would you say that the 4½-percent investment enables the insurance company, we will say, to pay 3 percent on its reserves? Does it cost 1½ percent, the difference of 1½ percent, or a little less, maybe?

Mr. BRIGHAM. It might. It would depend a little bit on the economic conditions that you run into in the period covered by the mortgage. If you had few foreclosures there would be practically no losses.

Senator TAFT. One thing has happened already, and that is that these veterans' loans are 4 percent. Have you any of those?

Mr. BRIGHAM. We are receptive. We haven't had any offerings yet.

Senator TAFT. Will not that tend to break down all mortgage loans to 4 percent?

Mr. BRIGHAM. I could not answer that question until we have had some experience with them.

Senator BUCK. Mr. Brigham, what do you think is the minimum rate at which mortgage money is attractive to private investors?

Mr. BRIGHAM. The general average rate?

Senator BUCK. The minimum below which it would not be attractive.

Mr. BRIGHAM. Well, considering all the cost, I think below 4 percent would not be attractive. Of course, I am speaking from the standpoint of a life-insurance company doing business over a large number of States. Perhaps a bank would loan in its own community for a lesser rate, where the banks pay a very low interest to depositors in savings banks, and of course commercial deposits receive no interest.

Turning now to the operation of the project we find that it has two sources of income:

1. Rental income paid by tenants.
2. Annual grants from the Federal Public Housing Authority out of appropriations from the Federal Treasury which are not repayable.

The grant from the Federal Treasury in 1943 amounted to an average per unit per month on all F. P. H. A.-aided projects of $8.38 and if earnings are insufficient this may rise $12.13 per unit per month.

The subsidy in the form of low interest rates, averaging 2.45 percent obtained from tax exemption and the use of government credit, together with the 60-year amortization period, result in an extraordinarily low debt service cost of $12.57 per unit per month. This figure represents a government subsidy of $12.66 below the cost of capital obtained from private sources at a rate of 4½ percent and with an amortization period of 25 years.

The local taxation concession is not available to me from all projects, but on one it is $2.22 per unit per month and we will consider an average $2 per unit per month.

We, therefore, have the following average subsidies for low-cost housing per unit per month:

1. Direct payments from the U. S. Treasury	$8. 38
2. Advantage in low-rate financing	12. 66
3. Local tax concession	2. 00
Total	23. 04

The average rental income per unit per month was $20.17.

Therefore we do not obtain low-cost housing by any miraculous method as compared to housing provided by private industry, but by eliminating charges which private industry must pay and transferring these charges to all taxpayers who must pay them in the end through higher levies, local, and national.

The question is, Can a private housing industry exist alongside a low-cost housing industry subsidized to the extent that the above analysis shows?

At a meeting in Chicago last winter I made some inquiries from managers of low-cost rental housing projects as to how it was determined what families should have the benefit of low-rental housing. I was informed in one case that the borderline was a family having a yearly income of $1,600. That is, a family having an income of more than $1,600 must find its living quarters elsewhere and, as the above analysis indicates, pay more than twice the rent for comparable accommodations.

Are not the families on the borderline going to demand from Congress additional appropriations to extend low-rental housing so they can be taken in? And there will always be a borderline.

I appreciate the fact that there exists a problem of supplying housing for people with low incomes. If low incomes result from substandard wages earned by those who are able and willing to work, are we not attacking this problem by establishing minimum wage standards by government, and by collective bargaining by organized groups of workers?

In times of depression, do not unemployment insurance and personal savings assist through a period of adjustment?

When we come to the problem of housing families whose members are unwilling or unable to work, we have a problem of assistance

which it seems to me can be solved insofar as housing is concerned by the issuance by the Government of rental certificates covering a portion of the monthly rental. This would be a form of relief not disguised by hidden subsidies.

In solving this problem of housing for low-income groups, we should consider that low-income groups do not exist only in big cities. They are to be found in small cities and towns and in farming areas all over this country. If the Government is to provide subsidized low-cost housing, it should not confine it to New York City, Chicago, Detroit Los Angeles, and other large cities, but extend it to all its citizens wherever they may be.

Since shelter is only one factor in the standard of living, should not needs for food and clothing be equally entitled to Federal subsidy?

But before entering upon such a program, should we not count the cost unless there is no limit to the Government's borrowing capacity and the sums it may raise by taxing its productive people? As Browning put it, the problem is not to consider what is fair in life providing it could be but finding first what may be, then making it fair up to our means, quite another thing.

The question of devising a peacetime housing organization to function when the life of the National Housing Agency presumably ceases would seem to depend entirely upon our national point of view. If the time has come when the Federal Government is going to enter into the extensive subsidization of housing in America, then in all likelihood some kind of over-all Federal agency will be necessitated, with especial emphasis being placed in its organization upon this activity. On the other hand, if the spirit and practice of free enterprise are to prevail, the position of the Federal Government becomes one of assisting the private construction, financing and ownership of homes. My comments to you are based upon the latter presumption.

In my opinion, as well as that of many other persons who have cooperated with it, the Federal Housing Administration has made to housing the outstanding contribution of our generation, a contribution which provides fair returns to the investor and the building interests, and also make it possible for the borrower to purchase a home on a fair basis.

Senator TAFT. Mr. Brigham, you bought a large number of F. H. A. mortgages. What is the cost of the house that was insured?

Mr. BRIGHAM. Well, they vary. I haven't the figures here, but I should say it would run from $3,000 up.

Senator TAFT. Have you any idea as to what the average is, about?

Mr. BRIGHAM. No; I cannot give you the average. I can very easily send it to you.

Federal Housing Administration sec. 203 loans made by National Life, 1935 to 1940, inclusive

	Number	Principal amount	Average
1935 (6 months)	563	$2, 518, 182. 06	$4, 472. 79
1936	2, 205	11, 093, 938. 70	5, 031. 26
1937	1, 794	9, 885, 572. 83	5, 510. 35
1938	1, 490	7, 828, 797. 23	5, 254. 23
1939	2, 803	13, 662, 492. 45	4, 874. 24
1940	2, 826	13, 127, 606. 48	4, 645. 30
Total	11, 681	58, 116, 589. 75	4, 975. 31

National Life Insurance Company—purchases and holdings of Federal Housing Administration-insured small homes and rental housing

	Total purchased to Dec. 31, 1944	Total held, Dec. 31, 1944
Small homes (Federal Housing Administration 203 and 603):		
Number	32,068	25,775
Amount	$146,589,506.52	$102,406,449.90
Average per loan	$4,571.21	$3,973.09
Rental housing (Federal Housing Administration 207, 210, and 608):		
Number	101	88
Amount	$39,242,378.45	$28,512,164.46
Average per loan	$388,538.39	$324,001.86
Total, Federal Housing Administration's:		
Number	32,169	25,863
Amount	$185,831,884.97	$130,918,614.36
Average per loan	$5,776.73	$5,062.00

Senator TAFT. What I am concerned about is how we can reach the people, how anybody can get a home where the income is, we will say, below $1,000. One thousand six hundred dollars is unduly high. It was intended to be lower than that. Even in New York City it is supposed to be $1,300. But how do we reach people under $1,000? Even a $3,000 home will not do that, certainly not without some subsidy.

Mr. BRIGHAM. It would depend on where it was located.

Senator TAFT. Well, in a city of any size.

Mr. BRIGHAM. My suggestion was, a rent allowance by way of a subsidy, if you have to reach those people.

Senator TAFT. Nobody is going to build a new home for those people on a rent-allowance basis. Nobody is going to build a new home on the theory that there are going to be a certain number of people in the future some day that some board is going to allow rent allowances to.

Mr. BRIGHAM. I assume the Government would have to make a contract with the agency building the house.

Senator TAFT. I want to know whether there is any way in which private people could invest in low-cost housing and receive the same subsidy that metropolitan housing authorities get today.

Have you any suggestion on that point?

Mr. BRIGHAM. Well, I have no opinion on that.

Senator TAFT. Another suggestion was made to me that there might be some way in which the insurance company or any other individual who proposed to put all equity, 100 percent in rental projects could be given the assurance of a direct subsidy on condition that they rented on the low-rent basis. Have you any suggestion as to that?

Mr. BRIGHAM. I haven't any suggestion on that.

Some companies have done that. Of course, we are located in a small city where we haven't any opportunity locally, or within easy reach, to do that.

Senator TAFT. There has been some talk about $3,000 houses, but whenever you get down to any average income community of any size, as nearly as I can see the F. H. A. mortgages run on $5,000 and $6,000 houses, as a rule.

Mr. BRIGHAM. Well, the average has gone up now with the higher cost of building and scarcity. We could very easily take the mortgages that we placed in 1935, 1936, and 1937 and give you an average of those.

Senator TAFT. In a small town in Vermont, you would be more able to build a $3,000 house than you would in a larger city, I suppose.

Mr. BRIGHAM. You could not do that now, with the costs as they are, of course.

Shall I proceed?

Senator TAFT. Yes, go ahead.

Mr. BRIGHAM. By mobilizing mortgage credit on the insurance principle, the F. H. A. has taken a long step toward preventing those periods of shortage of mortgage funds which, in the past, have contributed to the severe contraction of lending with high interest charges and which, in turn, has been a factor in generating extreme fluctuations in residential building. By establishing minimum standards of construction, site requirements, and planning, the F. H. A. has protected the borrower against errors to which the uninitiated are very liable. By establishing definite and proper requirements for amortization, down payments, tax and insurance payments and earning capacity, the F. H. A. has given the borrower reasonable assurance that he will be able to carry and discharge the debt. The builder and developer likewise benefit from the F. H. A. service—specifically from the selection of the borrowers, the experience and objective judgment of the F. H. A. upon the venture, and the increased marketability of the house that willingness of the F. H. A. to insure the loan provides.

May I give the loan experience of the National Life Insurance Co. over the past 10 years to illustrate the success of the Federal Housing Administration? During this time the company has made loans on 32,169 residences and apartment buildings for $185,831,885. Foreclosure has been completed on only 52 residences and 4 apartment buildings, aggregating $3,518,596. The average monthly payments made by residence borrowers, including amortization payments sufficient to give them complete ownership in from 10 to 25 years, and including tax and hazard insurance payments, have averaged just about what these families would pay for rent.

The F. H. A. serves as a distinct aid to the maintenance of private enterprise by making it possible for privately owned capital to assume risks otherwise hardly justifiable. F. H. A., in other words, has aided the marshalling of private capital for a most worthy social purpose. Payments to the insurance funds create reserves to meet estimated losses, and the Government assumes the unpredictable risk. What better formula yet has been devised to aid the continuation of capitalistic and democratic freedom of enterprise?

When the war is over, the F. H. A. should, in my opinion, be restored to its position as an independent loan-insuring agency responsible directly to the President and to Congress. It is sometimes claimed, mainly by the proponents of public housing, that since both the F. H. A. and the Federal Public Housing Authority deal with housing, they should be placed under a single agency, along with the Home Loan Bank System, in order to insure a coordinated housing program by the Government. Whatever coordination is achieved in this way is likely to be more artificial than harmonious. However, attractive a simple streamlined organization may appear, I suggest it is not the way to achieve operating efficiency where the activities involved are complex and variegated. The organization should be determined by the activities and not the activities by the organization. If subsidized public housing and mortgage insurance for private

housing are combined, one of them is very likely to become subordinated to the other. Their methods and their basic objectives are essentially different. In view of the vastly greater actual and potential significance of mortgage insurance for private housing, it would seem that this activity should dominate the set-up. However fair-minded a common administration might wish to be, it would find it difficult to serve two masters. The actual result might depend very considerably upon the economic predilection of the administration. It would be difficult for any administrator to coordinate and harmonize such diversity of interest as is represented by public and private housing, the one having the objective of providing low rental units regardless of cost, the other to provide shelter on a basis of paying costs through a fair return to private capital and payment of a fair share of the cost of Government through taxation.

According to the last annual report of the National Housing Agency, employees of the Federal Public Housing Authority outnumbered those of the Federal Housing Administration by more than 3 to 1. While this result may arise from the difference in the nature of the activity, at the same time it suggests that the administration might be influenced toward public housing by sheer weight of numbers. Again, the personnel of the top agency might represent a background predominantly in public or private housing and this would be a factor in the policies of the agencies. Moreover, it is well known that the public-housing movement enjoys the support of many well-organized and extremely vocal organizations which vigorously prosecute their case in Washington, as I believe investigation would abundantly demonstrate.

The United States Public Housing Authority now known as the Federal Public Housing Authority is a relatively new creation in Government and, as an agency created to provide public housing, its implications to date have been unbounded For these reasons alone, if for no other, this agency should function independently and, again, should be obligated to report to the President and to Congress, in order that the Members of Congress and the people may have full knowledge of the activities trends and course of public housing in this country, with the exact cost thereof and a plain statement of the subsidies granted, either direct or hidden through credit and tax advantages. As a former Member of the House of Representatives for 6 years, I believe I possess some appreciation of the desirability of keeping Congress well informed on matters of this kind.

I also believe that the Federal Home Loan Bank Administration should function independently because its activities differ greatly from those of the Federal Housing Administration as a loan-insuring agency, and from those of the Federal Public Housing Authority as an instrumentality to provide subsidized public housing. Omitting the H. O. L. C. which, being in liquidation, probably will be of decreasing importance in the future, the principal elements of the Federal Home Loan Bank Administration are the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation. The latter organization is wholly devoted to serving the safety of investors in savings and loan associations, and in practice the home-loan banks are largely mortgage banks for the benefit of savings and loan associations. While savings banks and insurance companies may be members of the Home Loan Bank System, 99 percent of the

membership in terms of numbers and 87 percent of the membership in terms of assets, are savings and loan associations. No criticism of this arrangement is intended here, as it is cited merely to show that the Federal Home Loan Bank Administration operates in a specialized field of mortgage finance.

Senator TAFT. Is your company a member of the Home Loan Bank System?

Mr. BRIGHAM. No; it is not.

Senator TAFT. I think only a few insurance companies are.

Mr. BRIGHAM. Very few of them.

Senator ELLENDER. Mr. Brigham, as you know, there has been a lot of talk in recent years about the establishment of so many bureaus and so many this and that, that Congress should take some means of consolidation. Now, I am just wondering. I listened to what you had to say about your views there, in saying, in effect, that all of these various agencies named and discussed by you should remain separate. As I understand, they have been under one head for the past 2 years. Have you found any difference in the way they are being handled now in contrast to the way they were being handled prior to their consolidation?

Mr. BRIGHAM. No; I cannot say that we found very much difference.

Senator ELLENDER. If that be true, don't you think it is advantageous to the Government to have them under one head and thereby save expenses? Quite a few witnesses testified that under the old set-up we had a lot of duplication of effort. For instance, in appraising various properties, one agency worked in the field of the other, but by consolidating all of these agencies and placing them under one head it is possible to use the same persons to appraise the value of properties for all the agencies that you mentioned. Why would not that be a good thing?

Mr. BRIGHAM. Of course, the Federal Housing Administration is selecting loans that they expect will pay out. They select the borrower as a man who pays his bills, who has good character, and a reputation for making payments, and they select the house as having a value so they can safely insure it. Their point of view is to insure a loan that has every expectation, in normal times, of paying out.

Senator ELLENDER. Why could not that same policy be followed whether it be handled in one agency or a number of independent agencies?

Mr. BRIGHAM. Of course, the low rental housing projects are entirely different. They are not expected to pay out.

Senator TAFT. In discovering the true value of a house, why should they do it independently? Why could not one consolidated bureau do that?

Mr. BRIGHAM. I suggest a little later here how it might be done.

Senator TAFT. I think Mr. Blandford recommended an over-all single unit, but provided for a certain amount of autonomy on the part of the units under it.

Mr. BRIGHAM. There is quite a lot of latitude in the administration.

Senator ELLENDER. One of your chief criticisms, as I understand it, is you prefer to have an independent agency because this agency can report back to the Congress. We get reports from various agencies. I cannot see any reason why such reports could not come through the one agency rather than have a lot of agencies reporting.

They could all make their reports to the President through the head of that agency. It strikes me that Congress would be just as well informed that way as though the agency made it direct to the Congress. Is that not true?

Mr. BRIGHAM. Well, my experience has been that the size of a document had some effect on whether Congress paid much attention to it of not.

Senator ELLENDER. Most of us do not have the time to delve into all of them at any rate.

Mr. BRIGHAM. That is true.

Senator ELLENDER. It strikes me, as I understand your testimony, that that seems to be the chief and only criticism that you make here.

Mr. BRIGHAM. We had a good many years' experience with the F. H. A. as a separate entity.

Senator ELLENDER. I understand.

Mr. BRIGHAM. Our experience with it was as a separate entity. We have had less experience with this combination. How it is going to work out in the end I do not know, but we had very good experience with it as an independent agency devoted to this specific purpose, enabling people of merit to have the means of getting a house, so they could own it in the end at a fair price.

Senator ELLENDER. Yes. I hoped that some of the critics of bureaucracy would come in here and help us to consolidate some of these agencies rather than continue their existence as independent agencies. There is entirely too much duplication of effort in our Government.

Mr. BRIGHAM. The Federal Housing Administration, on the other hand, insures mortgages for all types of lending institutions including national and State banks, mortgage companies, insurance companies and savings banks, as well as the savings and loan associations. Since the operation of mortgage insurance has little in common with the operation of deposit insurance, of central mortgage banking or the provision of public housing, an independent organization would promote operating efficiency. Also, it would prevent the F. H. A. being subordinated to the interests of a specialized group in the mortgage finance field. The responsibility of each agency would rest squarely upon the administration of that agency, and not be diffused and concealed by the attempt of a single administration to reconcile differing and sometimes conflicting interests.

It is true that there are certain grounds of policy upon which these agencies should at times present a united front. For example, at the present time, like all institutions in the mortgage-lending field, the F. H. A. and the Federal Home Loan Bank Board need to exercise restraint upon inflationary lending at higher and higher loan levels. But the fact that this is of vital concern to each is all the more reason for independence of organization so that each of them is free to work out its own proper policy and at the same time to accept sole responsibility for the consequences. The F. H. A. should be as free to refuse mortgage insurance to savings and loan associations as to any other lender when it considers that loans are excessive. And it is my observation that at present, savings and loan associations are more of a factor in increasing loan values than any other type of institutional lender.

Certainly differences of opinion as to methods and manners of appraisals and other practices could be no greater if the F. H. A. were functioning independently than is the case at present between the F. H. A. and certain other branches of the National Housing Administration. This may well be demonstrated by a comment found on page 35 of the December 1944 issue of Banking, the journal of the American Bankers Association, which, in commenting on G. I. loans, said:

> Another important factor in this issue is that some savings and loan associations have been much more prone to go along with present inflated values with more liberal appraisals than has F. H. A. The latter, while recognizing a scarcity inflation, has chosen to be more conservative in determining a property's "reasonable normal value," which of course benefits the lender.

The loan-guarantying activities of the Veterans' Administration as already set up are not part of the National Housing Agency, and, therefore, presumably are outside the scope of this discussion. Yet, while I believe the efforts to assist veterans in the purchase of homes, farms, and businesses deserve greatest commendation, in my opinion it is exceedingly unfortunate that the G. I. loans were not worked out as a part of the F. H. A. instead of creating virtually a new housing agency. A separate insurance fund could have been created in addition to the several now functioning and the Government could have paid all or part of the mortgage insurance premium if it desired. Other modifications with ease could have been made to assist veterans with their loans and a long step in the direction of unified housing administration would have been taken.

To sum up, I believe that the Federal Housing Administration, the Federal Home Loan Bank Administration, and the Federal Public Housing Administration should function separately, because each has been created for a vastly different purpose. However, this belief in no way ignores the constructive work done by the National Housing Agency during wartime, when it becomes necessary to ignore the significance of many matters which are of great importance in peacetime and which dare not be overlooked in discussing post-war housing.

If it seems desirable for the National Housing Agency in some form to be continued, very useful functions might be performed along the lines of some of the suggestions made by Administrator Blandford during his statement at the opening of these hearings last autumn. I quote Mr. Blandford from the report on the hearings:

> We must build better houses for less money. The National Housing Agency can perform a technical service unavailable elsewhere, relating to housing standards, building materials, and construction methods. * * *

The significance of this suggestion was pointed out very emphatically in a recent study of "housing costs" made by the National Housing Agency, which showed that a 20-percent reduction in the cost of a house and lot is more than three times as effective in reducing monthly costs than a 20-percent reduction in the rate of interest charged for a loan. Specifically, total monthly payments and costs of a $5,000 house would be reduced 5.4 percent over a 25-year period by a reduction in the interest rate from 5 to 4 percent, while a reduction in construction costs from $5,000 to $4,000 would reduce monthly payments by 16.4 percent.

Furthermore, the National Housing Agency or whatever it may be called, can render very useful services by conducting studies as to housing needs, and making these available to builders, to communities, to the F. H. A., to the Home Loan Bank System, to the Federal Public Housing Administration, and all other interested agencies. This would assist builders, civic leaders, and financing agencies to determine the greatest need for housing, and would direct interested parties to the opportunities which always repose in such need.

If the National Housing Agency were to undertake these functions, it might well be organized within the Department of Commerce, where its findings could be made available to all interested groups in much the same manner as the Bureau of Standards.

In conclusion, it seems appropriate to point out that the American people are the best clothed, best fed, and best housed people in the world. This fact in no way reduces the need for strong efforts directed toward improvement of housing in America and particularly for those people who experience only low housing standards. However, in our anxiety to accomplish this, let us remember that the present high standard of American housing has been achieved through private enterprise. Let us give private enterprise opportunity to continue performing, in the future, with credit to itself and our country, as it has functioned in the past, instead of restricting private enterprise and instead of having the Government take over functions which probably it cannot perform as well as private enterprise has done.

Senator TAFT. Mr. Brigham, we are very much obliged to you for coming down. The earlier part of your statement, I take it, was a very strong play on the point that the interest rate on F. H. A. loans, for instance, be not reduced, that is, that the 4½ percent rate is necessary if people who buy insurance policies are going to have the same incentive as they have today, with social security, and everything else; in other words, that the small investor's interests, the small saver's interests are at least of equal importance to the interests of the man who buys a house.

Mr. BRIGHAM. Well, there are 70,000,000 policyholders and a large number are small borrowers. They are interested on the side of having low-cost insurance, and they want to be paid a fair rate.

Senator TAFT. Are your F. H. A. mortgages mostly 80 percent mortgages or 90 percent?

Mr. BRIGHAM. First, they were 80 percent, then 90 percent. Of course, the earlier ones are now paid down, so they are probably 50-percent mortgages.

Senator TAFT. I note from your general figure that the average per dwelling unit seems to be about $5,700, which would make, I suppose, something like $6,500 or $7,000 the average cost of the house or apartment financed in that way.

Mr. BRIGHAM. Those were over-all figures. They include apartments in which we had large investments. If you are interested, I can very easily send you the average F. H. A. loan.

Senator TAFT. We have some figures from the F. H. A. itself showing the average, I think, pretty well, but I would be interested to know what your company has.

Senator ELLENDER. Do you know approximately what your investment in apartment houses is?

Mr. BRIGHAM. How much money?

Senator ELLENDER. Yes.

Mr. BRIGHAM. I cannot give you the figures offhand.

Senator ELLENDER. You can easily figure that out?

Mr. BRIGHAM. Yes.

Senator TAFT. How much of that is rental housing and how much is individual housing, do you know, roughly?

Mr. BRIGHAM. I cannot give you the exact figures because I haven't them with me, but the large apartment projects make up the bulk of our foreclosures. I think it is a remarkable thing that out of all the F. H. A. loans we placed only 52 residence loans have been foreclosed.

Senator ELLENDER. That is over a period of how long?

Mr. BRIGHAM. Ten years. You would expect more casualties in families, from death, divorces, and so forth.

Senator ELLENDER. I presume those occurred in the early years of the loan.

Mr. BRIGHAM. Yes; in the early years. We have very few now.

Senator ELLENDER. What became of those projects? Do you know whether or not the guaranties made by the Government were recovered?

Mr. BRIGHAM. I haven't followed them all, but the bulk of them, over $3,000,000 involved in the foreclosures, are two large apartment projects, and in the end they will probably work out all right, and the F. H. A. will not lose anything. They will be refinanced under present conditions.

Senator TAFT. Thank you very much, Mr. Brigham. We appreciate your assistance.

At this point, I wish to put into the record a letter addressed to me by the Metropolitan Housing Council of Chicago in response to our request for a statement of their views on the question.

(The letter referred to is as follows:)

METROPOLITAN HOUSING COUNCIL OF CHICAGO,
Chicago, Ill., January 15, 1945.

Senator ROBERT A. TAFT,
Chairman, Subcommittee on Housing and Urban Redevelopment,
Senate Post-war Committee, Senate Office Building, Washington, D. C.

DEAR SIR: As your subcommittee is not hearing local groups such as ours, we are taking the liberty of submitting our conclusions, based on 11 years of work in housing, as to the fundamental requisites of our national post-war housing policy. We are a citizen group, consisting of realtors, mortgage bankers, women's organizations, architects, builders, sociologists, educators, labor representatives, lawyers, industrialists, and neighborhood groups, functioning in the metropolitan area of Chicago.

We see a sound post-war housing program for the Nation as the key to the survival of the cities. The reconcentration of population within the great cities must be assured to enable them not only to achieve their maximum potentialities, but to actually avoid municipal bankruptcy. Such a program will likewise create employment, national prosperity, and social stability.

We believe the success of this objective to be dependent on—

1. Creation of a single, permanent housing agency. It would be desirable that the head of this agency be given Cabinet status. The problems of research, finance, construction standards, insurance of mortgages, and insurance of deposits of building and loan associations can be most efficiently and vigorously directed under unified leadership. Disintegration of the national housing framework among numerous competitive agencies will produce formlessness in the program, inefficiency, and waste. An illustration might be cited today in the inconsistency of the policies of the Federal Home Loan Bank Agency and the Federal Housing Administration. A definite hold-the-line policy in the latter agency is expressed in a fine appraisal organization, coast-to-coast, doing a good job in stemming a

run-away inflation by controlling their appraisals against the inflation in the real-estate market. The Federal Home Loan Bank Agency, which insures deposits on building and loan associations, has no comparable system of appraising mortgages made by the building and loan associations with their deposits, and is accordingly condoning a run-away market. Surely a strong permanent National Housing Agency would not permit such an inconsistency.

2. A sound national public housing program. As soon as the progress of the war permits, materials should be released and the Congress should provide funds for resumption of the United States Housing Act program, to be sustained until such time as a better formula for the housing of that segment of the population which cannot pay an economic rent is produced.

3. Aid to private enterprise to clear the slums. Private enterprise must be enabled to assist in the clearing of the slums by Federal aid toward the acquisition of land. Unless such aid is provided, enabling private redevelopers to buy or lease slum land, under proper controls, private building will continue on vacant land at the periphery of cities, defeating the objectives of halting the spread of blight and restoring the solvency of the cities.

Only a program of public and private participation under vigorous, unified leadership can achieve the goal of ultimately providing minimum standard housing for the American people, and making its maximum contribution to the economic welfare of the Nation.

Sincerely yours,

FERD KRAMER, *President.*

Senator TAFT. I might also say that Senator Radcliffe wishes me to announce he had planned to be here but he is unable to come today because he is attending the funeral of Senator Maloney, of Connecticut.

The witness is Arthur G. Erdmann, president, National Savings and Loan League.

Mr. ERDMANN. Mr. Chairman, I have with me, also, Mr. Kreutz, who is the executive manager of National Savings and Loan League that I represent today, and also Mr. O'Malley, and I might wish them to answer some of the questions.

STATEMENT OF OSCAR KREUTZ, EXECUTIVE MANAGER, NATIONAL SAVINGS AND LOAN LEAGUE

Mr. KREUTZ. We appreciate very much this opportunity to appear before the committee on this very important subject. I think I should add—I hope these gentlemen will not object—that Mr. Erdmann, the president of our league, heads the largest thrift and home financing institution in the State of Illinois. He is also a member of the National Savings and Loan Advisory Council, which is a statutory body created by act of Congress about 10 years ago, and Mr. O'Malley, who is chairman of our legislative committee and who is from Wilkes-Barre, Pa., and is chairman of the Savings and Loan Advisory Council, also.

On July 27, we submitted a factual statement bearing on the subject matter of this hearing. I assume that statement will be made a part of this record.

Senator TAFT. Do you wish to have it made a part of the record?

Mr. KREUTZ. If you please.

Senator TAFT. That is the one in response to the questionnaire?

Mr. KREUTZ. Yes, sir.

(The statement referred to is as follows:)

Post-War Housing and Urban Redevelopment

(Submitted by National Savings and Loan League to the United States Senate subcommittee on Housing and Urban Redevelopment in response to the June 7, 1944, request of Senator Robert A. Taft, chairman)

The probable level of post-war house construction has been variously estimated as high as 1,500,000 units per year for at least 15 years. Those who use such estimates appear to think that post-war housing demands will be governed by conditions quite unrelated to past experiences. It must be admitted that if some practicable means of demolishing a sizable proposition of existing structures were available a corresponding potential demand for new homes would be created. On the other hand, unless means are found to reduce house construction costs, the actual amount of new building may be much less than is anticipated by even conservative students of the question.

Casual statements to the effect that "one-third of American families are inadequately housed" depend for their validity upon the acceptance of a definition of "inadequate housing." One definition is found in Urban Housing, based upon a real property inventory taken by the Works Progress Administration during 1934–36 and published by the Government Printing Office in 1938. Here we find the following quotation: "Since substandard housing may result from a variety of objective and subjective conditions, it is not possible to set up a precise and rigid definition of the concept. However, absence of sanitary facilities, unsafe condition of the physical structure of the dwelling, overcrowding and the pressure of extra families are all factors which render a dwelling unit substandard."

The Bureau of the Census found that in 1940 6.5 percent of urban housing units lacked running water within the structure; that 9.7 percent needed major repairs; that 5.2 percent averaged more than 1.5 persons per room and were therefore classed as overcrowded; and that 12.2 percent of urban families consisted of other than husband, wife, and children. Of the 12.2 percent, the extra member of the household consisted of a grandchild in 1.9 percent of the cases; a parent in 1.7 percent; other relatives in 4.3 percent; lodgers in 3.5 percent; and servants in 0.8 percent.

A brief historical summary of house construction in the past may help to project our expectations for the future. From 1910 to 1916, inclusive, the number of nonfarm housing units constructed varied from 445,000 to 490,000 per year. After a sharp drop during World War I—to as low as 120,000 units in 1918—the number produced in 1921 rose to 449,000. This was followed by increasing production until 1925 when 937,000—the all-time peak—was reached. Annual production thereafter dropped off sharply and continuously to reach a low of only 93,000 units in 1933. From this low point a steady rise was experienced, with a secondary peak of 715,000 units produced in 1941. The average for the 10 years from 1934 to 1943 inclusive was 409,000.

The housing census of 1940 recorded 34,855,552 occupied dwelling units, of which 20,598,506 were classified as urban. If the estimate of 1,500,000 new units per year for 15 years were realized, we would witness a production of 22,500,000 units for the period, or 10 percent more than the entire number of occupied urban dwelling units disclosed by the housing census of 1940.

Meantime, we shall experience some increase in population growth. The rate of increase between 1930 and 1940 was 7.2 percent. The bureau of the census agrees with other authorities on the subject in forecasting that the rate of population growth will decline steadily until by 1970 the rate of increase will be negligible. It is interesting to compare a probable increase in our population of 12,500,000 in the 15 years following the close of the war with a projected construction of 22,500,000 new housing units during the same period—at the annual rate of 1,500,000 guessed at by some proponents of a huge construction program.

The evidence on demolition experience to date is quite illuminating. In March 1937 Lowell J. Chawner, senior economic analyst of the United States Bureau of Foreign and Domestic Commerce, presented a paper before the American Academy of Political and Social Science in which he said: "The demolition of residential structures in the United States in the past has been at a very low rate and over the period from 1920 to 1930 probably did not average more than 40,000 family units per year in all nonfarm areas. In the majority of cases during this period demolition occurred in connection with changes in land use from residential to commercial or other purposes. Only infrequently have submarginal structures been taken down during the last few years solely because they were no longer in demand. Withdrawal from use as a result of fire, flood, tornado, or other catastrophe may be estimated at approximately 30,000 family

units annually in nonfarm areas over the period from 1920 to 1929. Up to the present time in the United States average net changes by conversion, demolition, or other withdrawal from use have thus been small in comparison to the number of new units built annually. Over the period from 1920 to 1929 inclusive, the number of new units built was approximately 7,000,000. During this same period the number of units withdrawn from use by all causes probably did not exceed 10 percent of that number."

Even if we grant that as our housing structures become older they should be demolished at a more rapid rate, the above quotation does not afford much encouragement to those who expect a large replacement demand for new housing units—unless someone discovers a formula that will make demolition of existing structures economically desirable to their owners.

While the past is useful in helping us to forecast the future, we should not be bound by historical facts alone. Unquestionably the recent action by Congress in encouraging home ownership for returning veterans will give a tremendous impetus to home building. Likewise, if the techniques developed to meet war housing needs are fully utilized in the post-war period, and particularly if much of the new housing is kept within the reach of low-income groups, we may witness a sustained period of house construction such as we have never known before.

Because of changing construction techniques, it is difficult to forecast the probable amount of employment to be provided directly in the building trades in the post-war period. According to the National Industrial Conference Board (see their Economic Almanac for 1943–44, pps. 324 ff.) there were employed in the construction industry 3,279,000 people in 1925, the peak year, when 937,000 units were constructed. By 1933 the number of construction employees had dropped to a fraction of the 1925 number. During the lean years of the 1930's many craftsmen sought employment in other industries. By 1943, however, the number of people employed in the building trades was estimated to have increased to 1,821,000.

Post-war house construction should require less on-the-site labor than has been true heretofore if prefabrication and other new methods of construction now known are utilized. There is some question about the amount of skilled building labor that will be available. On the one hand, it must be remembered that the usual number of apprentices has not been maintained for more than a decade. Offsetting this is the large number of people who have been employed in some fashion in war-construction projects. What degree of skill they attained and how many of them will turn to construction work for employment in the post-war period is not subject to even approximate determination at this time. It appears likely, however, that the number of people who will be employed in the house-building industry in the post-war period will not exceed 4,000,000, even with an anticipated high level of activity.

Any discussion of house construction in the post-war period must proceed from the premise that there will not be substantial competition between housing provided at public expense and that provided by private enterprise. To the extent that such competition exists, it is likely that private enterprise will largely abandon the field to public construction. While private builders can easily compete with public construction costs, they are not able to overcome the advantages which public construction enjoys in the nature of unpaid taxes and other proper service charges which public housing undertakes to avoid, as well as the various kinds of subsidies which are available to public housing.

Public housing, provided on a scale that drives private housing out of business, would result in economic suicide for the American way of life. The effects are cumulative. If we attempt to provide new housing at public expense for a large number of our families, we encourage the group in the next higher level of income to apply for similar accommodations. Continue this process for a sufficient period of time and most of our people would be looking for living accommodations in structures provided by public agencies.

Meantime, the financing of public housing is a subject that is commonly misunderstood. When we speak of the Government doing this and that, we should keep in mind that, in our democracy, the Government owns no capital that it can use for the construction of housing facilities What it donates to the Jones family—in whatever form and in whatever degree—must be taken from the pockets of the Smith family. Should the Smith families of the country become discouraged and cease to be thrifty, not only would the Jones families not be provided with Government housing but the Smiths would be competing with the Joneses for governmental assistance. As a consequence, we would presently

find ourselves in a position where we would all be consumers while but few would have sufficient incentive to continue as producers.

We believe that whatever housing relief is provided for families that are unable to pay an economic rent should be provided at the community level. Each community should be permitted and encouraged to define its own needs for housing subsidies and should be given the responsibility for meeting them. So far as possible, we believe that families which need assistance in the payment of rent should be provided with accommodations in existing structures, rehabilitated, if necessary, to meet reasonable standards of livability. It is proper for local public agencies to define these standards and to prevent the use of housing which does not measure up to reasonable requirements. If the amount of existing housing is not sufficient to meet the needs of indigent families, we think that new housing to be provided for their use should be simple in character and not such as will encourage families that should provide their own shelter to wish for accommodations in subsidized housing projects.

In any case, we believe strongly that the Federal Government should limit its assistance to subsidized housing to loans to community projects and to advice in the planning of subsidized housing. We are definitely opposed to either the construction of further subsidized housing by the Federal Government or the continued ownership by the Federal Government of such housing already constructed. We think that existing properties—particularly the more permanent types of war housing—should be disposed of to local community agencies where they are needed as subsidized housing; or to private ownership where they are not so needed. In either case, the method of disposal should result in the least possible loss to the Federal Government.

We believe that one of the essentials for post-war housing progress is a change in the methods of construction—particularly for small houses—that will result in substantial lowering of costs to the home purchaser. On this subject we recommend a careful review of the recent report on American housing, published by the Twentieth Century Fund. This report resulted from the careful deliberations of a capable committee of disinterested public-spirited citizens, based upon the unbiased researches of an able staff of experts.

As is to be expected, we are especially interested in the further strengthening of those Federal agencies which were established by Congress to assist local thrift and home-financing institutions of the savings and loan type. We refer particularly to the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the provision for charters for Federal savings and loan associations. A good start has been made by Congress in giving its support to these activities which benefit untold millions of thrifty people and home owners throughout the country.

The Federal Home Loan Bank System, consisting of 12 regional banks with total assets as of March 31, 1944, of $292,479,000 and with 3,731 member institutions with total assets of $6,531,000,000, was organized in 1932. It is intended to provide a credit reserve system for urban residential mortgage institutions. While it is expected that the stock of the 12 regional banks will eventually be owned by their members, the Federal Government subscribed the majority of all stock outstanding, as a means of expediting the establishment of this bank system. While membership in the System is open to all types of financial institutions which make home loans, few have joined it to date except savings and loan associations.

Through advances to its members, the Federal Home Loan Bank System increases their capacity to serve both home owners and investors. In addition to their capital, the banks obtain funds from the sale of their debentures in the open market. At the present time these banks—as a system—may issue consolidated debentures not in excess of their outstanding advances to member institutions and not in excess of 5 times the paid-in capital of all 12 banks. In contrast with the Federal Reserve System, the Federal Home Loan Bank System has much more limited powers. The former possesses both discount and currency-issuing powers; the latter can neither discount its members' paper nor issue currency against it. They can merely lend to their members their capital and the proceeds of the sale of their debentures. This limitation places definite restrictions upon the Federal home loan banks which adversely affect their usefulness to their members.

The success of the insurance of accounts in commercial banks by the Federal Deposit Insurance Corporation led to a similar insurance program for savings and loan associations. In 1934 Congress authorized the organization of the Federal Savings and Loan Insurance Corporation, with a capital of $100,000,000 provided by the Home Owners' Loan Corporation. All Federal savings and loan associations must insure their accounts. Eligible State chartered savings and loan

associations may elect to have their accounts so insured. The present premium rate is one-eighth of 1 percent, as against one-twelfth of 1 percent for the Federal Deposit Insurance Corporation, and the protection to each investor extends to the first $5,000 of his investment. To date 2,500 associations, with nearly 4,000,000 investors, located in every State, Hawaii, Alaska, and the District of Columbia, have taken advantage of this insurance. The assets of these associations aggregate $4,500,000,000. The losses to date have been only 10 percent of the total net income of the insurance corporation, or 25 percent of its premium income. Its capital and reserves are now nearly $150,000,000.

In order to encourage the establishment of a uniform type of thrift and home financing institution under Federal supervision, and to make its use available to sections of the country not heretofore served by this type of institution, Congress included in the Home Owners' Loan Act provision for the chartering of Federal savinsg and loan associations. In a very real sense they have become the "national banks" of the home financing field. These Federal associations have grown in number and size until, as of March 31, 1944 they total 1,466, with assets aggregating $2,710,000,000. They constitute a very active segment of thrift and home financing institutions.

At this time we think it quite essential that Congress take early action in the enactment of Senate bills 756, 757, and 1034. None of these is really new in character. They merely amend laws that have been on the statute books for 10 years or more. The provisions of these bills are intended to change these laws to the extent that the experience of the past decade or more demonstrates is necessary. We are enclosing a copy of the brief we filed recently in support of these bills.

We have every reason to believe that the strengthening of the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the Federal savings and loan associations in the manner provided in Senate bills 756, 757, and 1034 will go a long way toward enabling private lending institutions of the savings and loan type to meet future emergencies.

The Federal Housing Administration was organized in 1934 at the insistence of manufacturing, construction, and real estate interests who sought an early revival of construction and building trades employment. At the outset the emphasis was placed upon title I modernization loans. Presently, however, the emphasis shifted to title II which provided for mutual mortgage insurance. To date total loans insured by the Federal Housing Administration aggregate $7,500,000,000. Reserves to meet losses now amount to $81,000,000. In the administration of the Federal Housing Administration considerable emphasis has been placed upon improvement in housing standards. We assume that the Federal Housing Administration will continue to insure such loans as Congress sees fit to encourage but which private institutions hesitate to make without insurance because of too great an element of risk.

There is a serious conflict between the Federal Home Loan Bank System and its affiliated agencies on the one hand and the Federal Housing Administration on the other. The differences are ably summarized by the Twentieth Century Fund's report on American housing (pps. 269–270) in the following words: "In theory, the home loan bank system is a partnership between Government and the member institutions. With the final liquidation of the Federal Government's investment, the home loan banks will be owned by the members. Regular procedures exist for consultation between the banks and the central administration on matters of policy; but the directive authority of the administration over the banks or member institutions is decidedly limited. Thus interest rates on mortgages are beyond the direct control of the administration. The methods of appraisal or the standard of housing accepted as security cannot be dictated by the administration except through the banks' supervision. The system derives its character from the numerous local institutions of which it is made up, and in turn provides a means for coordinating the policies and expanding the credit facilities of local institutions.

"The Federal Housing Administration, by contrast, is centralized and independent of local relationships. The Federal Housing Administration insures only such loans as are made on the basis of its appraisals and are backed by security conforming to its standards and subject to its inspection. Its policies are internally determined and no regularized means exist whereby the locality or its institutions can influence the adaptation of national policy to local needs. The success of the system thus depends upon the administrative wisdom of Federal Housing Administration. It asks only that the institution with which it deals

be 'responsible and able to service the mortgage properly'—a purely routine task. There is, consequently, a tendency for lending institutions to offer little more than this and to become dependent upon the judgment of the Federal Housing Administration.

"A divergence in basic policy is thus present. The Federal Home Loan Bank Administration is concerned with strengthening the lending institutions and increasing their participation and responsibility. The Federal Housing Administration is less concerned with the technical than with the mortgage-getting capacity of the institution, relying on its own processes to see that proper security is given. With the Home Loan Bank Administration, the institutions are the system. With Federal Housing Administration, they are merely the sales and service agents of a system.

"Another difference between the Home Loan Bank Administration and Federal Housing Administration is their attitude toward the segregation of banking functions. The former is attempting to create a specialized, long-term mortgage banking system. Federal Housing Administration accepts and promotes the fusion of long- and short-term lending functions in the same institution. With it the characteristics of the mortgage rather than the nature of the lending institution are the primary consideration. These differences are displayed in the insurance plans of the two agencies. Under the Federal Home Loan Bank Administration, the Savings and Loan Insurance Corporation insures the assets of an institution collectively. Federal Housing Administration insures each mortgage separately. Here again the Home Loan Bank Administration stresses the solvency of the lending institution, while Federal Housing Adminstration is concerned with the soundness of the mortgage itself."

The National Savings and Loan League thinks it should be possible to conserve the best that these two agencies have to offer to the service of the home-owner-borrower without sacrificing any of their important contributions.

We recommend the prompt disposal of war housing as soon as it has served its original purpose. We think delays in its disposal will result in greater losses to the Government. That housing which is temporary in character should be sold with the stipulation that it should be demolished within a specified period of time. Only by following this procedure can we prevent it from becoming slum housing at an early date. The legislation under which Congress provided for this housing contemplates its early demolition. The more permanent war housing can be disposed of to private owners or to local community agencies for continued use in its respective communities. Since we are convinced that Government-owned housing that undertakes to compete with private housing retards the development of our best productive national efforts, we hope to see the Government retire from the competitive housing market as soon as possible and, of course, at the least loss.

Urban redevelopment for the post-war period presents a challenge which we hope Congress will accept courageously. In many of our cities we find obsolete residential districts that represent desirable locations, equipped with street improvements, utilities, schools, shopping facilities, and indeed with everything needed for future residential uses except modern houses. We recommend that private enterprise be encouraged to provide the needed construction of new housing facilities. We believe that, under proper public supervision, private groups should be given the right of eminent domain to acquire title to land necessary for redevelopment, after the group in question has acquired by negotiation a reasonable proportion of the area to be developed. Whenever it is necessary for public agencies to acquire title to such land, we recommend that it be leased to private corporations or groups for redevelopment.

We believe that if the private agencies concerned with house construction and finance can be given the assurance that their facilities will be utilized in the post-war period, housing will play a major part in the adjustment of our economy from a war-time to a peace-time program. In placing emphasis upon our faith in the ability of private enterprise to meet America's post-war housing needs—without National or State subsidies—we hope that we are not blinded by our faith in our own abilities. We point to the fact that, in the past, the savings and loan associations of the country have played a major part in the financing of America's homes. At the present time practically every community is served by one or more savings and loan associations. Assisted by the agencies which Congress has set up to strengthen them, we feel that these associations will aid materially in meeting the home financing requirements of American families in the post-war period.

Out of our long and successful experience, we have learned that there is a peculiar advantage, or set of advantages, to the homeowner-borrower who deals with a local institution in the financing of his home. Both at the time of closing the loan and throughout its life problems arise in the average family that can best be solved by the sympathetic understanding of those who know the borrower personally and who can best contribute toward the solution of his problems. The relationship which exists among local investors, local borrowers, and local management tends to result in the creation of jobs through home construction by the aid of local money. The end result is the development of the kind of citizens who have helped to make our country great.

Specific recommendations to be filed at a later date.

Mr. KREUTZ. On January 10, since these hearings opened, we submitted 11 specific recommendations to the committee. They are very brief, one page, in fact, and I wonder if you would like to have me read them to you?

Senator TAFT. Well, you present whatever you want, whatever you think is of interest to us. That perhaps is the best way.

Mr. KREUTZ. Of course, we would like to have these made a part of the record.

Senator TAFT. Would you state of whom the membership National Savings and Loan League is composed?

Mr. KREUTZ. Yes. The National Savings and Loan League is a relatively new organization that started about a year ago. It has members in 33 States of the Union at this time. It is gaining members daily. We have substantially more than 300 members at the present time. Their assets are somewhere between three-quarters of a billion and a billion dollars at the present time.

Senator TAFT. What is the nature of the business of the members?

Mr. KREUTZ. They are all savings and loan associations, making loans on homes, primarily, and accumulating the thrift capital in their communities. They are locally operated, locally managed and owned institutions.

Senator ELLENDER. You are supported, I suppose, by dues and assessments?

Mr. KREUTZ. Yes, sir. Our recommendations are these:

1. That Congress reassert its faith in private enterprise by placing upon it the major responsibility for post-war housing construction and finance. A clear-cut statement by Congress on this subject will aid materially in reestablishing in the minds of all concerned with the construction industry both the opportunities for future business and the challenge to take whatever steps are needed to be ready to care for it when the war is ended.

2. That Congress let it be known that post-war housing needs must be determined at the community level; that private enterprise and public agencies within each community must meet the housing needs of that community; and that direct Federal activity in the field of new construction in the post-war period, if any, will be limited to loans to community agencies for the purpose of providing such subsidized housing as is needed to supply shelter to those families that private enterprises clearly cannot serve.

3. That Congress cause corporate—and income—taxation procedures to be examined to discover means of encouraging further investment of capital in the house building industry.

4. That Congress strengthen Federal antitrust and antiracketeering laws to remove restrictions upon the adoption of new and improved

methods and techniques which, if commonly used, would result in better homes at lower cost to the consumer.

5. That the Federal Home Loan Bank Board be reestablished as a five-member board with added powers to make it the over-all Federal agency dealing with private home financing institutions.

6. That steps be taken to include in the membership of the Federal Home Loan Bank System all types of institutions that make long-term loans for the financing of housing.

7. That, under the supervision of the Federal Home Loan Bank Board, Federal home-loan banks be permitted to purchase mortgages from their members.

8. That Congress enact the necessary amendments to the Federal Home Loan Bank Act to permit the Federal home-loan banks to extend their lending facilities to their members so that the latter may take full advantage of the Servicemen's Readjustment Act of 1944.

9. That Congress amend the Home Owners Loan Act to permit Federal savings and loan associations to take full advantage of the Servicemen's Readjustment Act of 1944.

10. That Congress pass S. 179, S. 180, and S. 103. I might add that S. 179 and S. 180 are very similar bills. We support all those bills.

We are attaching a brief filed with the Senate Banking and Currency Committee in support of these bills as introduced in the Seventy-eighth Congress.

11. That Congress take whatever steps are necessary and proper to encourage private enterprise and municipal authorities to make the most effective use of urban-redevelopment programs wherever the public will be best served thereby.

Now, Mr. Chairman, Mr. Erdmann is here, and he would like to make a statement in support of these specific recommendations, if you please.

Senator TAFT. I might raise a question or two. As to these bills, as I understand them now, why don't they put the Government into the lending business directly? That is to say, if the Federal home-loan banks can buy mortgages from their members, become the ultimate owners of the mortgages, and then issue their debentures under these bills to the general public. I am not sure whether, under the bills proposed, they cannot sell even them with a Federal guaranty.

Mr. ERDMANN. I do not think the bills before the Congress at the present time include any of that. This is merely our recommendation at the present time, subject to the introduction of additional bills.

Senator TAFT. Do they provide for the purchase of mortgages without recourse?

Mr. ERDMANN. They do not.

Senator TAFT. You recommend that, however?

Mr. KREUTZ. Yes.

Senator TAFT. That you recommend directly?

Mr. KREUTZ. For future consideration.

Senator TAFT. Of course, if the Federal home-loan banks are going to buy any considerable number of mortgages, the only place they are going to get any capital to buy them with is out of the Federal Treasury.

Mr. ERDMANN. Not necessarily.

Mr. KREUTZ. They have been able, Mr. Chairman, in the past to raise capital without too much difficulty by the issue of debentures and the sale of those debentures on the market at very low interest rates. Except for the initial capital, a part of which was supplied by the Government, they have obtained their funds in that way, and from the deposits of their members, and transfers of funds from one bank to another within the city.

Senator TAFT. Is there any possibility, rather than doing that, of their creating a market, a national market for mortgages?

Mr. ERDMANN. I would not say so, Mr. Chairman, from my point of view.

Senator TAFT. If you are going to have a national market for mortgages, I suppose the F. H. A. mortgages are easier to create a market for than those made by building and loan associations.

Mr. ERDMANN. That has already been provided, but at the moment there is not any instrumentality through which an association operating in the field, locally making loans, has the opportunity to sell them. It is through the means of trying to create the Federal Home Loan System that we would like to see it brought about.

Senator TAFT. I understand the Federal Reserve people—at least, I always understood it so—are very much opposed to setting up anything like a central mortgage bank. If there is going to be any central bank, they want to be the central bank.

Senator ELLENDER. What would be the advantage of setting up an agency of that kind, that is, to buy mortgages that you, yourself, own? Is not the interest that accrues from those mortgages your chief source of revenue?

Mr. KREUTZ. I was going to suggest that Mr. Erdmann, in his statement, will cover that to some extent, and, of course, after that, you may have a further question. He may answer that to your satisfaction in his statement.

Senator TAFT. The moment you permit the purchase without recourse, really, in effect, the Federal home-loan banks are making the mortgage themselves and you get no longer any interest from that mortgage. Where you discount it, you usually discount at a lower rate and make something on that.

Mr. ERDMANN. The institution that made the loan originally would continue to service it, and to have the bank system purchase these mortgages would provide additional capital, so the local institutions could make additional mortgage loans.

Senator BUCK. You say they cannot dispose of them to any other bank?

Mr. ERDMANN. Not their own conventional mortgages, they cannot sell them anywhere at the present time, to my knowledge.

Senator TAFT. There is no market for them.

Mr. ERDMANN. Even under the State laws the State institutions haven't the right to do it.

Senator ELLENDER. Reverting to the question of profits that I have mentioned, what part of your income do you derive from servicing loans?

Mr. ERDMANN. About one-half of 1 percent, I would say, would be fair figure. That is what we get now in servicing F. H. A. loans that we sell to the National Mortgage Association.

Senator Buck. What is the average rate?

Mr. Erdmann. Four and one-half to five percent; that is on the conventional loans. On the F. H. A. loans, of course it is 4½.

Senator Ellender. Do you cover in your statement how that would be handled? If it is on a discount basis, how much of the amount is due, and so forth?

Mr. Erdmann. No; I do not cover any specific matter. I felt that would be a matter that Congress would want to investigate on any recommendation that this committee would like to make.

Senator Ellender. Your idea would be to proceed, in the orderly way of doing business, buy the mortgages and then sell them to the Federal Government, that is, this agency, without recourse?

Mr. Erdmann. It could be done.

Senator Taft. That is, 4½ percent either with recourse or without recourse?

Mr. Erdmann. That has not been determined in our thinking, Mr. Chairman.

Senator Ellender. I see. Would there be objection that you be held in case of default?

Mr. Erdmann. If they are sold with recourse, then obviously we would.

Senator Ellender. Very well. But you would like to sell without recourse.

Mr. Erdmann. Shall I proceed with my statement now, Mr. Chairman?

Senator Taft. Yes.

STATEMENT OF ARTHUR G. ERDMANN, PRESIDENT, NATIONAL SAVINGS AND LOAN LEAGUE

Mr. Erdmann. It is our understanding that your committee is endeavoring to determine the part which the Federal Government should play in the post-war period in housing and home financing.

The interest of our Government in home financing is now well established. During past years Congress has taken several important steps to strengthen the local institutions which finance America's homes. Among the most important ways by which Congress has helped these institutions and those served by them are the following:

First, the development of the Federal Home Loan Bank System and the Federal Savings and Loan Insurance Corporation;

Second, the chartering of Federal savings and loan associations; and

Third, the establishment of the Federal Housing Administration.

We strongly urge that these agencies be continued and strengthened in ways that will make them even more effective. At the proper time we shall make specific suggestions to the appropriate congressional committees to the end that amendments to existing legislation may be enacted to correct some of the weaknesses that more than a decade of experience has uncovered.

In addition to the establishment of these permanent governmental agencies which deal with home financing, Congress has enacted laws for specific temporary purposes involving home financing and housing. For example, as a means of saving the homes of distressed home owners during the depression of the 1930's, the Home Owners' Loan Corporation was established to provide home-financing assistance to

those unable to secure it from ordinary sources. This was a temporary agency, established to meet a specific condition. The H. O. L. C. is well on its way toward liquidation and, since there is no longer any need for it, no group sponsors its indefinite continuance.

In like manner, to meet war needs, Congress has provided housing to meet specific purposes. Like the H. O. L. C., this Government-sponsored housing should be looked upon as a temporary source of relief to meet needs that private enterprise, for one reason or another, could not or should not serve.

The National Savings and Loan League believes that the Federal Government should make its post-war plans not to get deeper into the housing business but rather hold it down to the barest possible minimum.

We recognize that there are, in most communities, families so situated that they are unable to pay an economic rent for housing accommodations. We recognize also the importance of reconstruction of slum areas in many of our cities. But we recommend that Congress let it be known that the housing of indigent families must be handled at the local level by local authorities. With this principle established, Congress should then do whatever it can to encourage private enterprise and municipal authorities to make the most effective use of redevelopment programs. We urge also that Congress limit the participation of the Federal Government in the field of housing to loans to local authorities, under conditions which seem appropriate to the Members of Congress.

It has been demonstrated many times that private enterprise cannot remain in competition with its Government. Whenever the Government undertakes some major activity in competition with private enterprise, the advantages which the Government enjoys overcome the greater efficiency of private enterprise and cause the latter to abandon that particular activity. Unless the American people are ready to ask their Government to supply housing for a large percentage of our population, we respectfully urge that this responsibility be left upon the shoulders of private enterprise. We do not believe that the American people think a major change in our national policy of depending upon private enterprise for home construction and finances should be made. Nor do we believe that the Congress thinks such a change of policy is either necessary or desirable.

Because of the insistence of some groups that wartime-housing policies should be carried over into the post-war period and be greatly extended, many private operators who would normally expect to engage in home construction and finance are apprehensive about the post-war period. We hope that such fears will be dispelled at an early date. Congress can do much to accomplish this result. This important Senate Subcommittee on Housing and Urban Redevelopment, we hope, will reassert its faith in private enterprise by placing upon it the major responsibility for post-war home construction and finance. A clear-cut statement by Congress on this subject would reestablish in the minds of all concerned with construction both the opportunities for future business and the challenge to be ready to meet these when the war is ended.

Anyone who professes to believe that a Government housing program will be needed at the end of the war to provide employment in the building industry, ignores the facts of history and the accumu-

lated evidence to the contrary. Even without the G. I. home-purchase program, recently enacted by Congress, there is a potential demand for homes that it will take years to satisfy. Add to this the further demand from returning veterans and it becomes evident that the problem will not be how to generate a demand for new homes, but where to find the materials and labor to satisfy it. One thing is clear. Any materials and labor used in the construction of Government housing after the war must be diverted from what would otherwise be private construction. In brief, any Government housing in the near postwar period will be at the expense of private housing. We believe, therefore, that Congress should give to the people, and particularly to the home-building and home-financing industries, the strongest possible affirmation that post-war housing needs must be determined and insofar as possible met by the communities concerned and not by bureaus of the Federal Government—that private enterprise and local public agencies should combine to meet all housing problems——

Senator ELLENDER. Even for the low-rent housing?

Mr. ERDMAN. I would say "Yes", Senator; except, as we have stated, people who are unable to pay for their accommodations at all, or have such low incomes that it becomes necessary to get Government help.

Senator ELLENDER. You mean through the same policy we have been following in building homes through the U. S. Housing?

Mr. ERDMAN. I would think so.

Senator ELLENDER. But you want them to originate locally.

Mr. ERDMANN. From the local level, that is right.

Senator BUCK. What do you mean by that, Mr. Erdmann?

Mr. ERDMANN. Most communities are now studying their housing needs either through planning boards, planning commissions, or what have you.

Senator BUCK. Let that command the level?

Mr. ERDMANN. Let that command the level and show the need and then let that come up to whatever may be necessary.

Shall I proceed?

Senator TAFT. Yes.

Mr. ERDMANN. And that Federal activity in the field of new construction should concern itself strictly and exclusively to the housing of families in such low earning brackets that they cannot possibly house themselves but must depend upon Federal subsidies for subsistence.

We believe that Congress might well cause corporate—and income—taxation procedures to be examined to discover means of encouraging further investiment of capital in home building and related industries. During recent years various laws have had as their effect the lowering of the cost of home financing. Our members have made and will continue to make the necessary adjustments in their operating policies to the end that home financing shall be made as economical as possible. However, we wish to point out that the cost of home financing is only a minor part of the total amount paid by the home owner. There should be therefore continuous study to make the cost of home construction as low as possible, consistent with sound construction.

Senator TAFT. The Federal tax laws are pretty favorable to individual home construction. The problem has more to do with rental housing, I think. The home owner who is able to deduct real-estate taxes and interest charges is better off than the renter.

Mr. ERDMANN. Yes; that is true.

Senator TAFT. It encourages home owning.

Mr. ERDMANN. In this same connection, various practices and combinations of employers and labor unions which result in unnecessarily high cost home constrution should be discouraged. Some of these deterrents are mere trade practices, others are crystallized in the form of building codes. Congress should strengthen Federal antitrust and antiracketeering laws to remove the restrictions upon new and improved methods and techniques which, if commonly used, would result in better homes at lower cost. At the same time, the adoption of standards of construction which have as their chief purpose the protection of the health and safety of the occupants of homes, rather than the protection of vested interests in building materials and labor, would also result in economies. The Bureau of Standards has already done a great deal of work in this direction and should be equipped by Congress to undertake a great deal more.

For the betterment of home finance in many ways, we strongly recommend the reestablishment of the Federal Home Loan Bank Board as a five-member, bipartisan board, and the addition of powers which will make this bank board the over-all Federal agency dealing with private home financing. We believe such a five-member board should also supervise the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, the Federal National Mortgage Association, and Federal savings and loan associations. We further believe that the Federal Home Loan Bank System should include all types of institutions that make long-term loans for the financing of homes.

We should like to see both the Federal Home Loan Bank and the Federal Savings and Loan Insurance Corporation strengthened in ways that we will recommend to the proper congressional committees at an appropriate time.

We believe that the Federal home-loan banks, acting under the supervision of the Federal Home Loan Bank Board, should be empowered to purchase home mortgages, subject to reasonable safeguards. Through the establishment of the Federal National Mortgage Association and by other means the Congress has in the past encouraged the organization of better marketing of home mortgages. One of the reasons why the system already tried has never quite accomplished the purposes of its sponsors is that there has not been the proper coordination with the agencies of the Government most concerned with urban residential financing. By giving the Federal Home Loan Bank Board the authority to supervise all of the activities of the Government dealing with such financing, and then by giving the Federal home-loan banks the right to buy mortgages under the supervision of the Board, much better results could be obtained.

We recommend that Congress give early attention to legislation that will enable the Federal home-loan banks and their members to render the best possible service to returning veterans who purchase homes under the provisions of the Servicemen's Readjustment Act of 1944. We also recommend that Congress amend the Home Owners' Loan Act to permit Federal savings and loan associations to avail themselves fully of the same act of Congress. Savings and loan associations will undoubtedly be called upon to make a large proportion of such loans. We stand ready to do our part but will need some changes in Federal laws to make our institutions most effective.

These amendments while of great benefit to the savings and loan industry would be much more far reaching in their results, for they would make home financing more readily and completely available to the returning veteran. And this, we believe, is an objective very close to the hearts of the American people.

We consider it a privilege to have had this opportunity to submit the views of the National Savings and Loan League to you gentlemen of the Senate Subcommittee on Housing and Urban Redevelopment, and we wish to express to you our appreciation and thanks. Our appeal to you may be summed up briefly by expressing our deeply felt conviction that all your committee's recommendations should be based upon the principle that private industry can be depended upon to accomplish the great home building and home financing job in the post-war period. We believe that private industry should be empowered to act in these fields without Government competition. The sole exception to this principle should be the construction of housing for indigent families so underprivileged that they cannot provide decent accommodations for themselves. We believe that the greatest progress in home building and home financing will result from the fostering by Government of private initiative. This is the principle on which our country has grown great—the principle which has made our people as a whole the best housed, the best fed, the best clothed, the best served, the highest paid, and the most enterprising and energetic in the world. You can further this principle by wise new laws and by the revision of the old laws. We earnestly hope therefore that the suggestions we have given may assist you in the splendid and important work you have undertaken.

Senator TAFT. Mr. Erdmann, just exactly what is necessary to make the ex-servicemen's G. I. bill provisions effective as to your institutions?

Mr. ERDMANN. There are several things—one of which makes possible the secondary financing where they do not already the first.

Senator TAFT. That would be in the case of savings and loan companies?

Mr. ERDMANN. Yes.

Senator TAFT. We could not do that. The States would have to do that.

Mr. ERDMANN. I mean specifically Federal building and loan associations.

Mr. O'MALLEY. Under section 501, there is the matter of the repair loan unsecured for about $500 which they cannot make.

Senator TAFT. Federal savings and loan?

Mr. O'MALLEY. Yes.

Senator BUCK. I still do not see why you want the loan banks to buy these mortgages. It seems to me that is inconsistent with your wish for private enterprise, that the Government does not go into the building business, but you want to put them into the mortgage business.

Mr. ERDMANN. This is merely an additional means of supporting the market. If it is all right for an institution to make an F. H. A. mortgage, and it finds it necessary, in order to get a turn-over of its money, to provide additional capital in that particular community, it has the right to sell that type of paper to the Federal and national mortgage associations, then, for the same reason we believe ought to have that right with our own conventional type of loan.

Senator ELLENDER. Cannot you borrow it?

Mr. ERDMANN. Yes; there is such a thing as borrowing, that is true.

Senator ELLENDER. Why not, that is a source of more creating capital?

Mr. ERDMANN. I would like to add to that statement, too, Senator, if I may, and that is this: If what has been predicted is apt to happen in the post-war with reference to housing, there will be such an enormous amount of capital required that, if for no other reason, we believe definitely it would serve a very useful purpose at that time.

Senator BUCK. What you are saying is that your associations need more capital. When they have all their money invested, they are still not satisfied. Why come to the Government to get more?

Mr. ERDMANN. We would not come to the Government to get it.

Senator BUCK. You shift your mortgages back to them, you ask them to buy them from you so you will have more money to reinvest.

Mr. ERDMANN. The Government would not have anything to do with this. The source of money there is to have the Federal home-loan banks go into the open market and sell the debentures.

Senator TAFT. They sell them successfully largely because most of the stock is held by the Federal Government. The people know the Federal Government is not going to throw that money away.

Also, you say they can do that because you sell them to the Federal National Mortgage Association. That was just set up as a kind of an experiment. There is the same objection to passing on all the mortgages to the Government through them as anybody else. As I understand it, that was set up as a kind of experiment, to show how this thing would work, hoping it would lead to the formation of private mortgage associations that would buy these mortgages. In other words, the whole effort has been, not successfully, to get these mortgages passed on to the public, to find the capital from private individuals. It seems to me our job ought to be to develop that more and see why it has been unsuccessful, to standardize the mortgages so they can be sold to the public directly and not sold indirectly or through debentures that are looked upon more or less as a semi-Government guarantee.

Senator ELLENDER. That would certainly be in line with their views that the Government ought to keep out of private business. It strikes me every effort ought to be made to interest private capital in it.

Mr. ERDMANN. That is exactly what I am saying, Senator Ellender, because private capital would actually bring this about.

Senator ELLENDER. But still you want to get out and lend the home owner on his note so much money and then take the same paper and sell it to the Government, I suppose at a little discount, and in addition to that get one-half of 1 percent, or more, to collect that for the Government. I can see where you could certainly increase your income considerably by using the Federal Government in that way.

Mr. ERDMANN. Senator, I would like to have the record clear on one point and that is it is contemplated in this recommendation that there is to be any discount at all, or any profit from discounting, if this provision is finally worked out through proper procedure. The only thing that the institution originating this mortgage business would expect to get out of it would be a reasonable servicing fee, which at best probably would not exceed one-half of 1 percent.

Senator TAFT. Of course, one of the greatest threats to private enterprise is the gradual absorption by the Federal Government of all the financing of the country, because the Federal Government can raise money cheaper. One of the greatest threats that we face is that gradually we will try to finance every effort through the Federal Government. The Federal Government can get the money cheaper; that is their argument. It seems to me inevitably that leads ultimately to Federal ownership of everything. The provision of all capital by the Federal Government perhaps is the most likely way in which private enterprise may be destroyed. I do not like the steps in that direction any more than in the other direction of Government intrusion in private affairs.

Mr. O'MALLEY. Mr. Chairman, I would like to explain before preparing these recommendations we send a questionnaire to all of our members, outlining the problems and polling them on their views. I would like to emphasize on this particular point there was no thought, I am sure, anywhere, that the sale of mortgages by any member institutions to the home-loan banks would constitute, in normal times, any operation at all of any part of their activity and that only in abnormal times might that privilege be used, and then to a limited extent. By and large, these institutions have been in the business of collecting the capital locally from the public in the form of savings and to keep the capital for local needs. In fact, at the present time all the associations in the country, of which there are 6,000, with total assets of 7½ billion dollars and have out of the total assets some $2,000,000,000 cash. In addition, Senator Ellender, on the question you raised, they have a borrowing capacity, that is, the individual members of the Federal Home Loan Bank System, of which there are about 3,700, has a borrowing capacity of $3,000,000,000, under the terms of the Federal Home Loan Bank Act as it was passed in 1932, and this system of Federal home-loan banks over the country has a tremendous capacity to finance housing or home construction in the post-war period.

Senator TAFT. The only idea is that there must be some emergency. Isn't that emergency taken care of by the ability to borrow from the Federal home loan bank? That is the reason for the creation of the banks originally. The Federal home loan bank was not intended as a permanent proposition. It was to be used in hard times to borrow from and in other times to pay back. Isn't that enough recourse for an emergency? Why do you need these banks just to buy from you outright?

Mr. O'MALLEY. There is apparent in these recommendations, as you may have noticed, a provision for the placing of the Federal National Mortgage Association mortgages—F. N. M. A., as it is commonly called—with the Federal Home Loan Bank System, which for years was restricted by the statute to the purchase of F. H. A. insured loans. The thing Mr. Erdmann pointed out is the privilege of purchasing the uninsured loans by these banks, in a manner similar to that which is followed by the F. N. M. A., would seem to be desirable to take care of emergency situations and to support the market. But it is not a thing that I would like to labor particularly here at all, it is not a thing that goes, I would think, to the heart of the problem.

Senator ELLENDER. Reverting to your statement a while ago that it was not contemplated to make a profit on the sale of these mortgages from you to the Federal Government, cannot you conceive this situation: With the Government paying, say, 2 percent for its money and you taking the mortgage at 4½ percent and selling it to the Government for 4½ percent, that a cry might be sent up, "Well, now, the Government is making 2½ percent on this investment, therefore it should share its profit with us."?

Mr. ERDMANN. I reiterate, it is not the Government, it is an instrumentality of the Government.

Senator ELLENDER. Oh, well, it is an arm of the Government. The Government is responsible. I am certain the Government would stand back of its guarantee.

Mr. ERDMANN. I do not want to stress the point, but the Federal National Mortgage Association has been in existence some 8 or 9 years, I believe, and that same thing has existed there all that time, and to my knowledge that cry has never been raised.

Senator ELLENDER. I do believe a way by which we might be able to help would be to amend the present law, if necessary, so as to facilitate your ability to better discount your papers, if that can be done.

Mr. ERDMANN. All we want is to meet the needs of the community in connection with this better housing program that is underway. May Mr. O'Malley add something to that?

Senator TAFT. Yes.

STATEMENT OF JAMES J. O'MALLEY, CHAIRMAN, LEGISLATIVE COMMITTEE, NATIONAL SAVINGS AND LOAN LEAGUE

Mr. O'MALLEY. My name is James J. O'Malley, Wilkes-Barre, Pa. I am the chairman of the legislative committee of the National Savings and Loan League. Our legislative committee wanted to have a statement before your committee today, but because of the particular time of your meetings we have been unable to do it. Most of our associations have had their annual meetings in January. The Federal associations, under their bylaws, had their meetings just Wednesday of this week. So, I would like to ask to be extended the favor by this committee, if possible, of filing a statement, we having a meeting of the legislative committee on the 29th and 30th of this month. We would like to have the privilege of either filing a statement with your committee, after our meeting, or if you have any hearings in February to make an appearance then, after the legislative committee has held its meeting.

Senator TAFT. You certainly may file a statement. I do not know whether we will have any hearings in February. We want to have the statements in here as promptly as possible.

Senator ELLENDER. Your statement will be relatively new matter?

Mr. O'MALLEY. That is right. The committee comes in from all over the country, don't you see, and we want to get their general viewpoint.

Senator TAFT. Very well.

Mr. Bestor.

STATEMENT OF PAUL BESTOR, VICE PRESIDENT, PRUDENTIAL LIFE INSURANCE CO., IN CHARGE OF MORTGAGE LOAN INVESTMENTS

Mr. BESTOR. My name is Paul Bestor. Mr. Valentine Howell and I represent the Prudential Life Insurance Co. of America. Mr. Howell is the vice president and actuary, and I am vice president in charge of mortgage loan investments.

Senator TAFT. Mr. Bestor, you were connected with the land bank for many years?

Mr. BESTOR. The Farm Loan Board as it existed many years ago, in charge of the land banks.

On behalf of my associate, vice president and actuary, Mr. Valentine Howell, and myself, I wish to express appreciation of this opportunity to make a brief statement to this committee.

First, I wish to make it clear that we are not authorized to speak for any life-insurance company other than the Prudential, although I believe that most others are similarly situated. Naturally, we are all in favor of increased home ownership and are doing everything possible to enable worthy individuals to own their own homes. The accomplishment of the F. H. A. in cooperation with private capital in financing hundreds of thousands of small home owners has been outstanding. It has been our pleasure to purchase large numbers of both title II and title VI F. H. A. loans; in fact, such loans at the present time constitute more than 40 percent of our residential loan portfolio and in new loans closed during the last few years the percentage is much higher.

I might say our average F. H. A. loan is $4,900, not counting some 50 of the large-scale housing loans that aggregate about $20,000,000.

Senator ELLENDER. What does that volume mean in dollars and cents?

Mr. BESTOR. I was going to come to that a little later, but I will give you that now. The total amount is $268,000,000. I think we have the largest F. H. A. account of any institution. I am not absolutely sure of that.

The phase of the post-war housing problem which we wish to discuss is that of the interest rate paid by the individual who is financing his home and the resulting net return received by a life-insurance company such as ours, which has available for investment the cash savings of 22,000,000 of policyholders. We are anxious to continue if possible the policy which we have followed consistently for more than 67 years of financing home owners and farmers, and we expect to continue this policy providing, of course, our net rate of return from this type of investment is high enough to permit us to do so.

We believe that the further lowering of interest rates should be approached with considerable caution. In that connection we would like to explain why if a rate very much lower than the one now prevalent is adopted it would be difficult if not impossible for institutions such as ours to continue this long established policy of home financing. If the Prudential alone were forced to withdraw from this field of financing it would be of importance to our policyholders but perhaps not of any great importance so far as the general housing problem is concerned. However, if many other institutions with

large reservoirs of available credit were forced to do the same thing it would lead to a scarcity of private funds and possibly to a diminution of new construction.

It is also a fact that the funds of a life-insurance company—and this is especially true of a mutual company such as ours—are not the funds of a few large investors. They represent the accumulated savings of many, many individuals. It should also be remembered that existing premium rates have, for the most part, been computed on the assumption of not less than 3 percent interest, and these rates cannot be increased no matter what happens to interest rates. Any loss in net return on investments must result to a loss to the policyholders of our company. If the number of borrowers were approximately as great as the number of policyholders, it might be argued that since they were to all intents and purposes borrowing money from themselves, the rates of interest on loans should make no great difference, but that is not the case. The number of policyholders is many times the number of home owners. Manifestly, it is not fair to reduce the savings of the majority in order to benefit the minority of home owners, and I might add that it is not at all improbable, as has already been intimated, that to grant a reduction in interest rate would prove a boomerang against home owners themselves, in that they might not be able to obtain the necessary funds for home financing if the rate were excessively low.

It may be asked whether the policyholders of life-insurance companies will suffer unduly if there is a further reduction in interest rate. The only way to arrive at the answer to that question is to determine the net return which an insurance company gets from residential mortgages on the present interest rate basis. As the Prudential has specialized in the financing of small homes, a record of the experience of our company in this respect should be useful to your committee.

As of December 31, 1944, our total volume of mortgage loans was $1,081,000,000 and the total number of loans 177,500. This means that our average loan, including urban loans of all types and farm loans, was $6,100. Of this total of 177,500 loans more than 135,000 were residence loans, not counting multiple housing loans, of which we had some 5,500. The dollar amount was $635,000,000 and the average residence loan was $4,750. The great majority of these residential loans were on the monthly installment repayment basis and of that volume $268,000,000 were insured F. H. A. loans.

We were pioneers in the making of monthly installment loans. They are by no means a recent discovery. We made our first monthly installment loan 29 years ago and have been making them ever since. The idea was evolved from our experience with monthly premium payments on life-insurance policies. We reasoned that if monthly payments were a good thing for policyholders they should also be a good thing for home owners. This proved to be the case. The plan has been advantageous from the home owners' viewpoint but it added appreciably to the servicing and administrative costs as will be seen shortly.

Something over a year ago we made an analysis of our mortgage investment for the 15-year period 1928-42, inclusive. We did not make it sooner because, while we had made many estimates before that, we did not feel that accurate risk figures, without which no

complete analysis was possible, could be determined until we had disposed of most of our foreclosed properties acquired as the result of the depression. By the end of 1942 we had sold more than 85 percent of all properties acquired and we felt that we had sufficient data from which to make our analysis.

One of the first things we found out in making our analysis was that our loss on disposal of foreclosed residential loans was much more than it was on our average mortgage investment. This failure to secure satisfactory ultimate recovery on residential loans was due chiefly to two particular factors. The first one of these factors is basic and cannot be avoided. This is the obsolescence and depreciation factor. We found that both houses and neighborhoods, particularly neighborhoods, depreciated to an extent not found in most other types of security. The second factor was the result of our policy of extreme leniency toward delinquent home owners during the depression years.

As early as 1931 we advised our branch offices that the prevention of home and farm foreclosures was to be their major program. This action was taken voluntarily by us nearly 2 years before the national movement against foreclosure. Our policy of preventing foreclosures continued to be a first objective throughout the depression as is evidenced by various methods initiated by us to prevent foreclosure was that of refunding the loan by wrapping up the outstanding principal, delinquent interest, insurance, and taxes and extending the loan over a period of years under a new schedule of payments. This method saved many loans from foreclosure. The H. O. L. C. saved many others from foreclosure but still a very considerable number of cases proved to be hopeless and we ultimately acquired these properties.

Senator Buck. What was your mortality rate?

Mr. Bestor. I do not have it for that particular period, but our entire mortality rate over the period of making the loans is a little less than 10 percent of all types of loans. I cannot give it to you on residential loans. I know it is a little less than that on residential loans. I cannot remember what the exact figure is, but I think it is about 8 percent.

I have given this other long explanation because this delay in acquiring properties which we nevertheless ultimately acquired resulted in the necessity of extensive repairs by us at heavy expense, and in many cases with poor recovery of investment.

In making this analysis we also ran into the factor of higher expense in servicing monthly installment loans. It is easy to see that the clerical work of making collections on one loan 12 times a year instead of once a year increases the cost. Our analysis showed that although the number of our monthly installment loans was only 87 percent of our city mortgage loans, the work involved on the monthly installment loans was 94 percent of the total work required on the entire city loan account.

A further reduction in net return to the company in recent years has been brought about by changed customs concerning the payment of brokerage and expense in acquiring loans. For many years it was customary for the borrower to pay a commission in obtaining his loan but recently under competitive conditions this has been changed and at present it is customary for the company to pay the brokerage cost rather than for the borrower to pay it. In spite of that, however,

our cost of acquiring these loans was not excessive as the analysis will show. Much has been said about the high premiums paid for F. H. A. loans. We did not pay these high premiums and yet were able to acquire a large amount of business.

The average interest rate which is paid by borrowers to us on new residential loans is 4½ percent. In order to arrive at the net return it is necessary to deduct the following—this is in making the 15-year analysis:

(1) Cost of placing the loan on our books, properly amortized over the average life of the loan. This figure proved to be 0.28 percent. Just over one-quarter of 1 percent.

(2) Cost of servicing installment loans and other administrative expense, 0.54 percent or about one-half of 1 percent.

(3) Risk factor as determined by recovery of investment on loans foreclosed, 0.65 percent or about five-eighths of 1 percent. Total cost 1.47 or about 1½ percent.

It should be mentioned that while the loss factor is considerably reduced for F. H. A. mortgage, their smaller average amount plus additional work necessary pushes the average expense costs on this type of mortgage up to about an equivalent figure.

The total cost percentagewise, including the losses on property acquired on all our residence loans is shown to be 1.47 percent. Deducting this 1.47 percent from the 4.5 percent rate, we find a net return to us of 3.03 percent. This is about one-half of 1 percent better return than the 2.5 percent Government bonds available to a life-insurance company. Government bonds have the advantage of liquidity, and while I would not know how much to allow percentagewise for this liquidity factor, it is an important advantage. However, it is clear that if the rate paid by the borrower were 4 percent instead of 4½ percent, and if the liquidity factor were assigned even a normal value, an investment in Government bonds yielding 2½ percent would be a more advantageous investment. We believe a rate below 4 percent would probably dry up this source of investment for many companies such as Prudential.

Senator Buck. You do not recommend 4 percent?

Mr. Bestor. No, sir. From our analysis it would be a question whether an investment in 4 percent residential mortgages were better than in 2½ percent Governments.

Senator Taft. You would not want all Governments anyway.

Mr. Bestor. No, sir; we would not. At present we have 52 percent of our total assets in Governments.

Some question may be in your mind as to our cost of operations. For the last 11 years we have used the branch office system of operations, which has cut down costs from our earlier method of operation. We have made every effort and continue to make every effort to cut this expense further. Compared with the costs in other companies, insofar as they are available, our costs are somewhat below the average. We believe our conclusion is correct that under present conditions our cost of placing a loan on the books and of servicing and administering the loan could well be regarded as close to a minimum cost.

The next point has been mentioned by Mr. Brigham, I believe, but I think it bears repeating.

Senator ELLENDER. Before you go to the next point——

Mr. BESTOR. Surely, Senator.

Senator ELLENDER. Your chief argument for not desiring to reduce that rate is that your company, as well as many others, might be prone to buy Government bonds rather than finance homes and thereby the home owners would suffer. With such an enormous debt as we now have and with so much money in circulation, cannot you see the possibility of the Government rate of interest being cut? Don't you think it will be necessary to reduce the Government rate considerably within the next few years?

Mr. BESTOR. Senator, I do not think I would know enough about that to say. I can see, from what you say, the possibility of that, but I would not be in the position to express an opinion on it.

Senator ELLENDER. You have given thought, I am sure, to the enormous amount of money we will have to appropriate each year simply as a carrying charge, some estimate from 6½ to as much as 7½ billion dollars a year, just simply to carry out debt. That is more than we spent in the early thirties to run our whole Government, and that is something I am sure a lot of thought will have to be given to.

Senator TAFT. Mr. Bestor, going at the other end of it, this 3 percent that you want to earn, how far is that a reduction of the interest rate going to result in a lowering of the return to the policy-holders, and how strongly can the insurance company itself stand it? In other words, have you guaranteed policies at 3 percent to any extent?

Mr. BESTOR. I think Mr. Howell has a brief statement on that. He is the actuary of our company.

Mr. HOWELL. Would you care to wait?

Senator TAFT. Yes.

Mr. BESTOR. It is a very brief statement. We did think you might raise that point, so we have prepared a statement on that.

Senator TAFT. Yes.

Mr. BESTOR. I would like to mention one other point.

It would seem that the interest item in the cost of a house to the individual home owner may easily be overemphasized when it is compared with the cost of other items. I wish to call attention to the fact that while other costs to the borrower, such as material and labor, have been going up during the last few years the cost of money to the borrower has been steadily going down. As to the matter of the relative importance of further interest reduction as compared to reduction in the cost of other items that go to make up the cost of home ownership, the National Housing Agency in a recent pamphlet on housing costs entitled "Where the Housing Dollar Goes" has made an interesting analysis. They have taken as an example a case where a home, including both house and land, cost $5,000. They have amortized this cost on a basis of a 25-year, 90 percent F. H. A. loan. Their break-down of costs has included amortization payments, cost of labor, material, taxes, insurance, maintenance, interest paid to the F. H. A. and the loss of interest to the individual on his 10 percent cash payment. Based on this break-down of cost the National Housing Agency pamphlet points out that a reduction in interest would not cut costs to the borrower materially. Based on their break-down, if the capital cost of the house were to be halved without

any change in interest rate, taxes, maintenance or any other items, the total cost to the borrower would be reduced close to 50 percent, whereas if the interest rate were reduced 50 percent and all other factors were left the same it would reduce the cost to the borrower only 13 percent.

It would seem to me that to penalize the majority, by which I mean life insurance policyholders, at the expense of a decided minority financing their homes, would scarcely be worth while from the standpoint of the percentage saved the borrower.

It is also a question as to whether it is a wise policy to discourage private investors of the Nation by reducing further the net return they can hope to get on the investment of their savings.

I would like to summarize the points which I have tried to make as follows:

1. The cost of making and servicing residential loans, particularly those written on the monthly repayment basis, taken over what might be called a full real estate cycle, is heavier than it is in the case of making and servicing loans of other types.

2. Interest rates to homeowners have been going down steadily for several years, while other costs have been going up. Further reduction in interest rates are not fair to policyholders whose savings are being used for home financing, and excessively low interest rates may react against the borrowers themselves by limiting the supply of funds.

3. As the National Housing Agency has pointed out, a further reduction in the interest rate paid by the borrower at the present time is of relatively small importance to the borrower as compared with reduction in other costs; and

4. If interest rates are further reduced life-insurance companies, such as the one with which I am connected, will be faced with the problem of whether or not it will be possible to continue their long service in financing homeowners, or whether they must seek investments in other types of security where the investments will bring the same or better net return and will be more attractive because of the presence of elements such as liquidity and perhaps greater stability.

Thank you, Senator.

Senator Taft. Mr. Bestor, what about the problem of rental housing? That seems to be, in the financing field, a greater problem than the problem of the individual home. What has been your experience in financing rental housing?

Mr. Bestor. May I say, first, Senator, I did not come down fully prepared to discuss that, and if you will give due allowance for what I might not know about it, or be prepared to give, rather, I would be glad to answer.

Senator Taft. Surely, you know more than we do.

Mr. Bestor. You mean as to the ownership of them?

Senator Taft. I mean whether you have done a great deal on it, whether you have acted under the Federal Reserve section 207.

Mr. Bestor. We have about $20,000,000 of those section 207 loans on our books.

Senator Taft. The section does not seem to have been a very great success, as far as volume is concerned. I wondered if you knew why.

Mr. Bestor. No. Our loans have been very satisfactory, though, Senator. Of the entire number that we made, I think there are only

three that ultimately came to foreclosure, and I understand that those are now on a sound basis.

Senator TAFT. Are they high-grade apartment houses, mostly?

Mr. BESTOR. They were fairly high grade, practically all of them. We were rather selective in the ones we took under that section. There was section 210 that we took a few under. That is now obsolete; there are no longer any being made under that section. Most of the multiple housing loans have been made under section 207 and 608.

Senator TAFT. Has your company any equity investment in housing such as the Metropolitan?

Mr. BESTOR. About 12 years ago, in a small way, we put up three apartments in Newark, under a special section of the law of New Jersey which permitted us to do so, under certain limitations, particularly the limitation on rent per month. It is confined to New Jersey under those limitations.

Senator TAFT. Was that an attempt to get low-rent housing?

Mr. BESTOR. It really was an attempt to get low-rent housing; that is correct. As a matter of fact, these three projects that we put up, my recollection is we invested about $5,000,000 in them. In one building the rent is from $10 to $14.50 per room per month, including public utilities, and in another one it is from $8 to $10 per room per month. There were two others.

Our experience over the 12-year period has been, with the limitations that were placed on it under that particular New Jersey act, that limitation as to rent, we were unable to secure an adequate return, plus an adequate depreciation over a reasonable period of years, 33 years as we figured it.

Senator TAFT. There was, of course, no subsidy involved from the Federal or State Governments, was there?

Mr. BESTOR. That is correct.

Senator TAFT. Do you think any money would be available if the Federal Government did something in the way of a subsidy, as they do with the metropolitan housing authorities? I mean, is there any chance to replace any public investments in low-rent housing by private investments in them if they got the same inducement?

Mr. BESTOR. You mean if there were a certain Government guarantee of return on investment.

Senator TAFT. Certain payments on condition that the rent did not go over a certain amount?

Mr. BESTOR. Senator, if I understand your question, if you mean whether private industry could handle low-cost housing——

Senator ELLENDER. Upon the payment of a subsidy.

Mr. BESTOR. I think that an insurance company would undoubtedly wish to be guaranteed a reasonable return on its investment plus adequate allowance for depreciation, which would insure ultimate recapture of invested capital. In other words, I do not believe that low-cost housing projects would attract private capital without satisfactory guaranty.

Senator TAFT. That would make possible an average return with the rents paid plus the subsidy at some figure that you regarded as sufficient?

Mr. BESTOR. That is exactly it, Senator.

Senator ELLENDER. If you do not care to answer this question, don't put it in the record. Can you give us an idea of what your net returns were on these three projects that you spoke of?

Mr. BESTOR. I cannot give it for the whole period.

Senator ELLENDER. I mean the percentage, based on your investment.

Mr. BESTOR. You mean on the housing projects?

Senator ELLENDER. The projects you built yourself.

Mr. BESTOR. I have the figures here, Senator, for 1943, but I do not have them for previous years.

Senator ELLENDER. That was a mighty good year as contrasted to the past.

Mr. BESTOR. Yes. On one project it was 4.67, on another 3.16, and on another 4.38.

Mr. HOWELL. That was not allowing for depreciation. If you allow a 33-year life, you take 3 percent from those figures. That is less than 2 percent.

Senator ELLENDER. What did the rent aggregate per family unit?

Mr. BESTOR. It varied, of course. On two buildings it ran from $8 to $10 per room per month, averaging four rooms to the apartment. The first one was built in 1932 and the other in 1933. It ran from $40 a month to $60 a month.

Mr. HOWELL. There were quite a few three-room units.

Mr. BESTOR. I think Mr. Howell is correct; I said four. They varied all the way from two rooms to five roons, I think. I think the average was probably three rooms.

Senator TAFT. Did you have any trouble keeping them full?

Mr. BESTOR. No; not recently.

Senator TAFT. What was the restriction? Was that under your charter, you mean, that the law of New Jersey would prevent doing?

Mr. BESTOR. We cannot go in under the law of New Jersey except under the special statute.

Mr. HOWELL. That is right. We cannot invest in real estate except under this particular statute.

Senator TAFT. Under what kind of authority did the Metropolitan build the development there?

Mr. BESTOR. It is my understanding that is a special act of the State of New York permitting domestic companies to do that. The Metropolitan has done it in other States, as well as in New York.

Senator TAFT. What do you think of the possibility of investing insurance funds in equities in residential developments?

Mr. BESTOR. I would think, Senator, that an insurance company would be interested provided that after an anlaysis of the proposed development the company were convinced of its economic soundness and that under normal conditions return of invested capital with reasonable interest would ultimately result.

Senator TAFT. You would probably want in that case more than you do on these other mortgages. You would want 5 percent or 6 percent, would you not?

Mr. BESTOR. I do not think so, not so much as that.

Senator TAFT. On all these mortgages you get 90 percent of the property, under the present conditions anyway. If you got a little better returns you might as well take 100 percent.

Mr. BESTOR. I think there is one factor there that is overlooked in those projects. There are a good many factors, but one is that you may get a good return in the first few years, but then those buildings must still give a good return up to the end. You must have the property produce a return over the life of it, so that at the end of the period you will have it fully amortized and paid.

Senator TAFT. It requires you to put in a development which is sufficiently good in order to be pretty certain that it will be of permanent advantage, from the point of attractiveness.

Do you wish to make your statement about the 3 percent now, Mr. Howell?

Mr. HOWELL. Yes, I would like to take your time for a few minutes, to discuss the interest rate in its relation to mutual life-insurance company premiums and reserves.

STATEMENT OF VALENTINE HOWELL, VICE PRESIDENT AND ACTUARY, PRUDENTIAL LIFE INSURANCE CO.

Mr. HOWELL. Most premium rates on policies issued up to 2 or 3 years ago have been figured on the assumption that we will earn 3 percent or 3½ percent on our investments up until the policies mature. When those rates were calculated, those were conservative assumptions. Back in 1930 when the assets of the Prudential were $2,500,000,000, about equally divided between bonds and mortgages, the interest rate earned was 4.99 percent, and the amount available in excess of the 3 and 3½ percent for premium refunds or dividends to policyholders was $34,000,000. Today, on assets of $5,850,000,000, slightly more than 50 percent of which are Government bonds on not better than a 2½ basis, the amount that can be returned to policyholders from this source is practically nothing. If, in the near future, a large part of our mortgage loan account has to be refunded at lower rates since a distinction between new and existing borrowers can be made only for a short period, there will be a difficult adjustment ahead for the life-insurance companies.

Now, I don't want to overdraw this picture. Mortality rates have been better than those assumed throughout this period, and the civilian mortality rate is lower at the present time than it has ever been. Policyholder profits from this source have been sufficient to offset to a very considerable extent losses from interest and from war mortality. It may interest you to know that war claims last year were just short of $20,000,000 in the Prudential. Prudential refunds or dividends to its twenty-two million-odd policyholders have decreased, on the average, to less than 40 percent of what they were in 1930. The decrease so far is not alarming, but the dangerous angle, so far as far as the policies of earlier issue are concerned, is that the great bulk of the mortality improvement has been at the young ages. As policies and policyholders grow older, mortality margins get less, and reserves, and hence the interest deficits which are based on such reserves grow greater. Finally, in the case of almost all ordinary policies, in place of claim payments in one sum, proceeds may be left with the company at 3 percent or 3½ precent interest. Interest deficits from this source are going to be heavy as thepolicies mature in greater numbers.

I don't know how much responsibility is felt by this committee toward the institution of life insurance. In the past life insurance has been an accepted medium through which the funds of the smaller investor have found their way into housing operations. In 1944 the Prudential's premium collections were $750,000,000 from about $22,000,000 people, and about $475,000,000 of additional funds were available for investment.

In my belief, and you may not agree with me, about 75 percent of that was extra investment funds, in the sense that if these people hadn't been sold life insurance, and if the premiums hadn't been aggressively collected, the money would have been spent rather than saved. From the viewpoint of those primarily interested in the housing problem, this potential investment arising from life insurance sources is important. From the viewpoint of the 70 million holders of life insurance policies in this country, it is equally important that this avenue of investment be kept open to them, and that a reasonable rate of interest be maintained.

Senator TAFT. Are any contracts in your company guaranteed a 3-percent return?

Mr. HOWELL. The rate basis is 3 percent, and in that sense we have guaranteed the rate. However, there are other factors, as I have mentioned. The mortality rates, for example, have been better than those assumed in computing these premiums, and they have been increasingly better throughout the period.

Senator TAFT. Does that mean people have died sooner?

Mr. HOWELL. No; I mean they have not died as soon.

Senator TAFT. You referred to war losses. Was that war losses in 1944?

Mr. HOWELL. Yes.

Senator TAFT. You mean they were $20,000,000 larger than the prior year?

Mr. HOWELL. There were $20,000,000 losses in total amount. As I say, the civilian mortality was the most favorable that we had ever experienced, in 1944, and, to quite a large extent, offset that increase of $20,000,000. It did not completely offset it, but it offset a large part of it.

Senator ELLENDER. You spoke of your war casualties.

Mr. HOWELL. Yes.

Senator ELLENDER. Do not most insurance companies have a clause, with some restrictions, as to those who enter war service?

Mr. HOWELL. Only on policies issued since Pearl Harbor. The vast bulk of policies have no restrictions.

Senator ELLENDER. Does that apply to all companies?

Mr. HOWELL. Yes.

Senator ELLENDER. I am glad to know that.

Mr. HOWELL. There is another factor that has to be taken into account also in these older policies, and that is, to a large extent, on maturity there are settlement options contained in them under which the beneficiary has the right to leave the proceeds of the policy with the company, and in that case—in answer to your question about guaranties—there are guaranties in practically all old policies of 3 percent or 3½ percent on the proceeds of claims. When the policy matures as a death claim, instead of taking cash, in a great majority of policies the option exists to let the policy stay with the company and

have it either paid out by installments which are based on 3 or 3½ percent, or let it stay at interest with the company, with the guaranteed rate of 3 percent. Those are the potential losses.

Senator ELLENDER. In those cases where it is optional for the beneficiary to spread that over, say, 20 years, is there anything written in the policy, or are you obligated to make this payment on the basis of 3½ percent?

Mr. HOWELL. In some cases 3½ percent, and in some cases 3 percent; yes.

Senator ELLENDER. Is that in the policy?

Mr. HOWELL. That is in the policy; yes.

Senator ELLENDER. I see. There is more written in the policy than I thought there was. I might get more insurance.

Mr. HOWELL. While we are satisfied that we can continue to exist on the 2½ percent basis, nevertheless, and don't let me overdraw this picture of our troubles, but nevertheless we cannot come much below.

Senator TAFT. You have to pay enough to people so there is some incentive to save money.

Mr. HOWELL. That is right.

Senator TAFT. If you get it too low, there is no reason why they should not buy Government bonds.

Mr. HOWELL. Exactly.

Senator TAFT. That is all.

The committee will recess until 2:15. We just have one witness more.

(Whereupon, at 12:45 p. m., a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

(The committee reconvened at 2:15 p. m., pursuant to recess.)

Senator TAFT. The committee will be in order.

We will first hear from Mr. Schwulst, executive vice president of the Bowery Savings Bank. Mr. Schwulst.

STATEMENT OF EARL BRYAN SCHWULST, EXECUTIVE VICE PRESIDENT, BOWERY SAVINGS BANK, NEW YORK CITY

Mr. SCHWULST. Mr. Chairman and gentlemen, I am the executive vice president of the Bowery Savings Bank of New York City.

This bank was organized in 1834. It is a mutual institution, that is to say, it has no stockholders. Its earnings and its assets belong to its depositors. It is managed under the direction of a board of trustees who serve without compensation.

It has deposits of about $535,000,000, belonging to 383,000 depositors. It is supervised by the Banking Department of the State of New York, and by the F. D. I. C., of which it is a member. It does no commercial banking business. Its deposits are pure savings deposits which come in over the counter. Its investments are strictly governed by law and they comprise principally United States Government bonds and certain other types of bonds legal for investment, together with first mortgages on real estate.

There are some three or four hundred of these mutual savings banks in the country, mostly in the northeastern section of the country, and they have deposits aggregating in the neighborhood of eleven or twelve billions of dollars.

As a preface to my comments upon the specific questions included in Senator Taft's letter to me of November 27, 1944, I should like to say that those comments will be based upon two assumptions:

1. It is the policy of the Federal Government that our existing economic system, which is based upon free enterprise and private profit, is to be preserved and encouraged.

2. It is accepted public policy, as evidenced by National and State legislation already on the books, that government—National, State, and local—has a proper place in providing or facilitating the provision of housing for those elements of the urban population which private enterprise unaided cannot provide for. This housing need not be new housing. The only requirement is that whether it be new or whether it be rehabilitated old houisng, it should meet certain generally accepted minimum standards of decency.

It will hardly be necessary for me to make the point that it is entirely consistent with the private-enterprise system, particularly as that system becomes progressively more and more industrialized, for government to participate directly and indirectly with entrepreneurs, financiers, farmers, and workers in policies and undertakings affecting their economic lives. It is generally accepted that government should be responsible for the monetary system, for the post office, for public education, for the regulation of foreign commerce through a system of tariffs, for the provision and maintenance of an adequate system of public highways, and for a great maze of policies and operations involving the public safety and the public health. The participation of government in activities that fall within one or more of the fields just mentioned may take the form of direct expenditure, direct ownership, direct and indirect subsidization of private ventures, or direct and indirect underwriting of the loss that might be incurred in private ventures.

The protective tariff, for example, is a form of indirect subsidy instituted for the benefit of certain industries, businesses, and farmers. While there is a great deal of controversy from time to time about the desirability of a protective tariff, yet no one contends that it is inconsistent with the private-enterprise system. Direct subsidies by the Government to encourage the establishment and development of a comprehensive air transport system and an adequate merchant marine are not regarded as being in conflict with the private-enterprise system.

In short, as the development of the arts and sciences has led to the progressive industrialization of our own country and other countries, and as this industrialization has also led to the intensification of the division of labor in the productive processes, and as this in turn has led more and more to the employment of labor en masse, it has become apparent that there is an increasingly important place for government in keeping the intricate machine running smoothly and in protecting the health and welfare of the multitudes at work within that machine. There is a supervening public interest in the operation of this machine and in the effect of that operation upon individual citizens. The responsibility for the protection of that public interest must rest with government.

The arts and sciences have abolished laissez faire just as they have abolished the feudal system of the Middle Ages and the household economy in our own age.

The problem for those of us who believe in the preservation of the private-enterprise system is to find the way for government to play its necessary part in our complicated economic life without usurping the role of lord and master in everything we do. That is the basic challenge facing democracy and private capitalism today.

Statistics have already been presented to this committee showing that there are many of our people whose incomes are insufficient to permit them to own or pay rent for housing that meets generally accepted minimum standards of decency. If such housing is to be provided by private enterprise, it must be with the assistance of government, because private enterprise cannot venture into investment fields where the revenue to be obtained will not cover operating costs, amortization of capital invested, reasonable reserves for contingencies, and a rate of interest or dividends on capital comparable to what capital can earn in fields of like risk.

Therefore, if for reasons of public health, crime prevention, and the public welfare generally, it is in the public interest to provide such housing, it would seem to me to be perfectly proper for government, preferably through subsidies or guaranties issued to private enterprise, to take up the slack between what private enterprise can do unaided and what the public interest requires to be done. There is nothing new or revolutionary in this statement, and there is nothing in it which is incompatible with the private-enterprise system. The only problem is that of determining to what extent the public welfare requires that government participate in the provision of housing.

Before I comment upon certain specific matters relating to the subject which this committee is investigating, I wish to make one other general observation. Whenever the Federal Government in the public interest decides that it must participate directly or indirectly in the housing field, it should do so only after giving careful consideration to the following:

1. Is it true in the given case that private enterprise cannot do unaided by government what government in the public interest decides should be done in the housing field? This calls for a sincere and painstaking examination of the facts.

2. Government will not do directly what it can do indirectly, through such devices as the subsidy and the guaranty against undue loss, to encourage private enterprise to do.

3. Government will, through such means as the encouragement of research, the study and revision of tax and zoning legislation and building codes which may be hampering private enterprise, and the promotion of a better understanding between capital and labor, try constantly to lower construction costs and broaden the housing field in which private enterprise may function unaided. This will involve withdrawal by government from direct or indirect participation in that field as private enterprise is able to take over. Sincerity and good will on the part of all concerned are required in dealing with this complicated problem. Clichés and slogans will not provide housing.

4. Government is nothing more than an instrumentality of the people created for the purpose of making effective the people's will through collective action, within the borders of our several constitutions—Federal and State.

Just as government derives its authority and powers from the people, it must also derive from the people the means of making its authority and powers effective. The means is represented by the wealth or income taken by government from the people in the form of taxes and loans. Government has many claims upon the wealth and income which it takes from the people, and before it adds to those claims through ventures into the housing field, it should make sure that it can afford the risks and losses which it is underwriting and that the incurring of those risks and losses is definitely in the public interest.

With the permission of the committee, I should now like to take up the specific questions which I have been invited to comment upon.

I. A PERMANENT FEDERAL ADMINISTRATIVE ORGANIZATION OF THE HOUSING AGENCIES

By virtue of Executive Order No. 9070 signed by the President on February 24, 1942, a number of housing agencies and housing functions were placed under the direction and supervision of a National Housing Administrator. Perhaps the three most important of those agencies are the Federal Housing Administration, the Federal home-loan bank—together with the Home Owners' Loan Corporation and the Federal Savings and Loan Insurance Corporation—and the Federal Public Housing Authority.

I think all of these agencies have a useful and proper part to play in the housing field. But it is important to private enterprise that the Federal Public Housing Authority not be permitted to engage in housing undertakings that may properly be left to private enterprise. The Federal home-loan banks and the Federal Housing Administration are essential aids to private enterprise and they would probably share this view. There would seem definitely to be a place for a coordinator to see that these respective Federal agencies do not encroach upon each other's territories.

All of the housing agencies now under the supervision and direction of the National Housing Administrator have a common interest in the securing and maintenance of lower construction costs, proper standards of construction, proper neighborhood planning and zoning, and, above all, sound appraisal practice. They also have a common interest in avoiding another housing boom, in seeing to it that new housing is provided in an orderly manner as materials and labor may be made available after the war and in harmony with the needs and means of the people who will be in the market for housing.

As I understand it, the general idea behind the creation of the National Housing Agency was to accomplish such purposes as I have outlined. So far as I know, the National Housing Agency and its present Administrator have handled well the assignment which the President gave them. While I hold no brief for the Agency or the Administrator, I am satisfied that the function they are supposed to perform is an essential function. In the interests of efficiency, I believe that the administrative responsibility for directing the Agency should be lodged in one man and not in a board.

In view of the fact that in some respects the various housing agencies mentioned compete with each other or may have conflicting interests, the administrative head of the supervising agency should be carefully

chosen and should be a man as free of prejudices and predilections as possible. To help him in maintaining a judicial temperament, it should be required that on all matters of policy and on all operations that may affect the interests of more than one of the constituent agencies, he must consult with an advisory board made up of the heads of those constituent agencies. That board should be no more than advisory, however. Such an administrator could accomplish a great deal in the general fields of research, construction costs, construction standards, and trade and labor practices which would be of great benefit to the constituent agencies and to all interested in housing matters.

II. DISPOSAL OF WAR HOUSING

As I understand it, most of the war housing built directly by agencies of the Federal Government is temporary, and the law provides for the removal of this housing after the war. The National Housing Administrator has stated that he proposes to remove such housing upon advice from the local communities that its removal will work no hardship. It would seem to me that this question is probably adequately taken care of. I would conclude my remarks about it by saying that temporary war housing should be removed as soon as possible so as not to compete with existing permanent housing or with new housing that would otherwise be provided by private enterprise. Perhaps some of this housing can be dismounted or cut up and made available to the devastated areas abroad. That possible source of disposal should be carefully explored.

III. PROBLEMS OF THE REVIVAL OF THE HOME BUILDING INDUSTRY, INCLUDING THE RELAXATION OF WARTIME CONTROLS

I should like to deal with the relaxing of wartime controls as an aid to the revival of the home building industry before taking up the other relevant problems. It would be a grave mistake for the Government to yield to pressure groups or yield to the restlessness of the public in general, which is chafing under wartime restrictions, and remove too soon the controls now exercised by the O. P. A., the W. P. B., and other arms of the Government. As a savings banker and as a life insurance policyholder, and also as a prospective pensioner, I have a professional and personal interest in the prevention of inflation. As a citizen with an interest in the welfare of all of our people, I know how disastrous inflation can be and how imperfectly most of our people understand this fact.

The groundwork has unavoidably been laid in this country for a first-rate inflationary spree after the war unless the Government turns a deaf ear to the removal of controls on costs, prices, and consumption until the plant of this country can begin to turn out production in sufficient volume to meet the great pent-up demand. The monetary purchasing power of the country represented by currency in circulation has increased from 7.3 billion dollars to 25.3 billion since the outbreak of World War II, and the monetary purchasing power of the country as represented by the demand deposits in commercial banks has increased during this same period from 27.4 billion dollars to 65.4 billion dollars. The over-all increase in monetary purchasing power has been 161.4 percent.

Of course that isn't the whole story because we have got billions of dollars of demand Government obligations, such as War Savings bonds that have been sold to the public. A good many of those bonds have been placed by virtue of the patriotic urge with which most of our people quite properly are seized at this time. I don't know how many of those bonds are going to be redeemed after the war, but when you sell bonds under pressure it is quite likely that a good many of them are going to be presented for redemption when the war crisis is over. When those bonds are presented for redemption, unless the Government has got enough income from taxation to take care of those bonds, when they are presented—and that may not be the case——

Senator TAFT (interposing). It certainly will not be.

Mr. SCHWULST. Or unless the Government can sell refunding bonds to savers with which to take care of those bonds that are presented for redemption, we know what is going to happen—the Government is going right into the commercial banks for the money with which to redeem those bonds. That means an addition to the monetary purchasing power of the country.

If this vast increase in purchasing power is permitted to circulate freely and if the owners of it are permitted to bid against each other for a limited supply of goods and services, we shall be in for terrible times in this country.

With the necessity of maintaining this general policy ever before us—that is to say, the policy of control over these inflationary factors—I believe that the restrictions upon the building of new housing and the repair of existing housing should be relaxed as soon as workers and materials can be made available for use in the house-building industry.

Mr. Blandford has already pointed out what the post-war need for housing is likely to be. As a means of providing employment and needed shelter for our people, the Government should encourage the resumption of the home-building industry on a peacetime basis as soon as that may be done with a proper regard for the general welfare of the country and with a proper regard for the eminent danger of inflation.

Now, if I may, I should like to comment briefly upon certain other problems affecting the revival of the home-building industry. Some of these problems are endemic, and their solution, if possible at all, can be brought about probably only over a long period of time. In the first place, I should like to refer to the way in which the home-building industry is organized. It is still, generally speaking, in the handicraft stage. Mr. Miles Colean has dwelt fully upon this problem in his recent book entitled "American Housing." There are few large-scale producers of housing. The nature of the product itself makes large-scale production difficult, but it would seem that there is room for great improvement in this direction.

The production of housing, particularly housing in small units, is likely to remain relatively costly until we learn how to apply to it mass-production methods and large-scale management, for which America has a special genius as is demonstrated in a most noteworthy fashion by the motorcar industry. The fact that costs are high is responsible for the fact, as Mr. Blandford has pointed out, that very little new housing is built for people of low incomes. They must be satisfied with hand-me-down housing, much of which is very old and inadequate when it reaches them.

Without at all attempting to be critical of builders, material men, contractors, and labor unions, many of whom have resorted to certain restrictive practices in order, in their judgment, to protect their legitimate interests, these elements in the organization of the home-building industry should try seriously to find ways and means of reducing the cost of producing homes. I should put high on the priority list among the problems to which the National Housing Agency, or some agency of the Government like it, should give its concentrated attention, this problem of lowering the cost of producing housing. Such an agency can be objective in its approach and should enjoy the confidence of all the elements in the industry in its study of this problem.

As a savings banker associated with an institution that has long had a deep and sympathetic interest in financing the provision of shelter, I am probably expected to say something about the problem of financing costs in the provision of homes. If there is any field in which there is free competition, it is that of lending money on mortgage. There is the freest possible competition among the large segments of lenders on mortgage, such as the insurance companies, the savings banks, the commercial banks, and the building and loan associations.

By and large, the borrower against mortgage—certainly in my territory—gets the benefit of the lowest interest rate which a free and open market can afford him when the risk factors surrounding his own particular situation are taken into consideration. The over-all governing factor is the interest rate on Government securities. Since a mortgage is less marketable, more expensive to make, more expensive to service, and surrounded with more risks as to the credit position of the borrower and the value of the security, than are Government bonds, it is inevitable that the interest rate on mortgages will exceed the interest rate on Government securities. But the rise and fall in the Government-bond rate is sooner or later followed by a roughly corresponding rise and fall in the mortgage-interest rate. In my territory, that spread will usually run from 1½ to 2 percent between the long-term Government rate and the long-term mortgage rate on the typical conventional mortgage loan. That spread compensates for the various disadvantages mentioned above pertaining to the mortgage loan as against the Government bond. It is noteworthy that conventional mortgage loans are now being placed at 4 and 4½ percent interest in the New York region, whereas about 10 years ago the common rate was 6 percent. This represents a drop of from 25 to 33⅓ percent.

While on the subject of interest rates, I should like to say that thrift institutions, in order to encourage the masses of the people to practice thrift, must have some regard for the necessity of offering those people in the way of interest a sufficient reward to induce them to save.

Senator Buck. What do you pay, 2½ percent?

Mr. Schwulst. We pay 1½ percent up to $5,000 and 1 percent above $5,000. I should say the characteristic rate in that territory, among thrift institutions in general, would be around 2 percent. In New York City the common rate is 1½ percent, such as we are paying. There are a few banks paying 2 percent. The building and loan associations, I think, on the whole are paying around 2 to 2½ percent.

Thrift institutions have many more depositors or members than they have borrowers. The Bowery Savings Bank, for example, has nearly 384,000 depositors as against only about 13,000 borrowers on mortgage. Sometimes the relative numerical importance of these two groups is lost sight of, particularly when we talk about interest rates on mortgages.

I might just interpolate there and say that while our average deposit runs something over $1,000, our typical deposit is well under that, it is probably in the neighborhood of four or five hundred dollars. So you can see that it takes the savings of some 10 or 11 or 12 savers to provide the funds for one $5,000 loan.

The return paid to depositors and members in my territory is now lower than we would like to see it. This is in part a reflection of the general lowering of interest rates obtainable from investments. Thrift institutions have been increasingly heavy investors in Government bonds at relatively low rates. It is in part a reflection of the inadequate supply of good real-estate mortgages, due to the virtual stoppage of construction. Then, of course, it costs thrift institutions something to operate, and they must also for the protection of their depositors and members set aside each year some reasonable proportion of their earnings to meet losses and other contingencies. In New York State the law imposes upon savings banks certain surplus requirements which can only be met out of earnings. Because they have no stock they can sell no stock. They can only build up their net worth, or their cushion of protection for their depositors, out of the earnings that they make.

Given the desire and even the necessity on the part of thrift institutions to raise somewhat as soon as possible the payments they make to their depositors and members as a reward for the practice of thrift, and given the necessity also on the part of those institutions of maintaining a reasonable proportion of their assets in Government securities and other liquid investments, it would appear from various calculations that have been made from time to time not only that the mortgage interest rate should not fall below its present level, but also that there should be an increase in the supply of good mortgages at these rates available for investment.

Senator Taft. Are your mortgages made direct or are they F. H. A. mortgages?

Mr. Schwulst. We make both kinds, Senator. We have about 6,000 F. H. A. insured loans, and we have about 7,000 uninsured mortgage loans.

Senator Taft. Is there any trend to take more F. H. A. mortgages?

Mr. Schwulst. It so happens that at the present time, due to the dearth of construction, except war housing, that about the only available supply of loans in the current market is F. H. A. loans under title VI of the National Housing Act. Consequently, most of our investments in mortgages in the last year and a half or 2 years, have been in the title VI loans. Now there are a few loans, the refinancing of existing mortgages, conventional loans—those would be uninsured loans—but there isn't a great deal of that, and there is such keen competition for them that we have more or less been out of the market for that type of loan.

Senator Taft. As you look forward to the F. H. A. going back to the 90-percent loan under title II, what do you think will be the division

between the two? Will the F. H. A. gradually absorb all mortgages, or is there a permanent substantial place for the conventional mortgage?

Mr. SCHWULST. I think there is a very definite permanent place for the conventional loan. I think there are a great many people who can buy homes and make a substantial down payment, who won't need the F. H. A. to insure the mortgage.

Senator TAFT. They save a half a percent on that, don't they?

Mr. SCHWULST. They will save a half of 1 percent, of course, on the insurance. The F. H. A. is set up primarily for the middle and the lower income home owner. You take the fellow who can afford to pay a substantial price for a home and he has no business going into the F. H. A. The banks, the insurance companies, and the other lenders ought to be able to take care of him without benefit of insurance, and there will be a considerable amount of construction for those people.

Now the fourth topic that you asked me to comment on is the Role of the Federal Government in Future Public Housing.

I think I can save a little time if I just comment about that without attempting to read what I had prepared. I have just one or two points to make in that connection. I am afraid these are likely to be more or less trite, but for the record I ought to make them.

I don't believe that the Federal Government ought to get into any housing field where private enterprise, unaided by the Federal Government, can do the job. As I have already pointed out, there are certain housing fields where there is a definite public interest involved in the way of crime prevention, public health, public safety, and so on where, because of the low incomes of the tenants, the occupants of the housing, private enterprise simply cannot enter because of high land costs, high construction costs, and various other reasons.

I think that there is a place for government, and when I say "government" I am using that in a generic sense, I am not talking altogether about the National Government, I am talking about State and local governments too. I think they ought to bear a large part of the burden of providing this housing or facilitating the financing of it, or providing the subsidies that may be required, and so on, but I do think there is a field for that. I don't think that government can supply that type of housing for everybody who needs it. The Government has only what it takes from the citizens in the form of taxes, and what it borrows from them, and it isn't an inexhaustible gold mine. And the Government has got a lot of claims on it, or I should say the Government has a good many claims on the wealth and income that it takes from the citizens in the form of taxes and borrowings, and it must canvass carefully its over-all situation before it jumps too glibly into this business of doing a welfare job in housing.

The claims of veterans are likely to be very substantial when this war is over, and in the post-war years to come.

I mean there has got to be a lot of common sense used in just what the Government can do. The Government can't go out and do all this job, that is impossible.

One other point I would like to make in that connection is that to the extent that it is possible—and I don't know to what extent it is possible but it is something that ought to be studied—I should prefer

to see the Government do whatever it may feel called upon to do in the interest of public welfare in the housing field, through subsidy and through guaranty to private enterprise. I should prefer to see it use that device of the subsidy and the guaranty rather than the device of direct lending or direct borrowing in the market, or direct ownership or building of this housing. I would like to see the Government bring private enterprise into it, but through subsidy or guaranty see that private enterprise is protected against loss which, if the job is to be done at all, has got to be socialized.

Now one other point in that connection before I pass on to another subject. I have just made the point that the Government is not an inexhaustible gold mine. The Government can do something—and it should do all it can with due regard to the other claims on government, present and prospective. I know that is very vague and it isn't very helpful, but I don't know how I can make it any clearer or any plainer. But it seems to me that the greatest aid that government can really render in this housing field is through research, through a better coordination of the elements in the housing industry, all designed to lower the cost of production, so that we can broaden the field in which private enterprise can operate without calling upon Government for subsidy or help of any kind.

The Government can do a great deal in the way of a study of existing legislation, zoning legislation, tax legislation both real estate tax legislation and income-tax legislation, to see if there may not be some ways there of making it possible for private enterprise to function more effectively without Government aid than it seems to be able to in this low-income field at the present time.

I have one thing in mind which I am going to mention presently in connection with urban redevelopment. We have made some very intensive studies of that question in New York City and I hope the committee will grant me the time to bring before it a few of the results that we have found. But it would seem to me if, in the income-tax laws, more liberal allowance could be made for depreciation deductions before determining net taxable income, that there might be a great incentive there toward private enterprise doing a job unaided by Government, so that private enterprise would have a better opportunity or a better assurance of getting back its capital investment, even though with a modest rate of return on it.

But I will come to that again in a moment.

Next I deal with the subject of Types and Methods of Private Credit Aids. I can summarize that briefly, without reading it, by merely saying that in the middle income field where the F. H. A. operates, and the home-loan banks operate, I don't think the Government need do very much more than it is already doing, and in the rental field there it would seem to me that the Government, through section 207 of the Federal Housing Act, is doing about all that need be done.

Builders can go into that field now with a moderate capital investment, or a moderate equity investment, and build housing. There may be some little refinements that ought to be put into that provision of the law, but by and large it seems to me that Government is doing about all it ought to do with respect to these owners and tenants in the middle income group.

I might just say in that connection that in New York State the State legislature has authorized the insurance companies and savings banks, through certain housing legislation, to get into the moderate income rental field of housing, and I shall have a little more to say about that when I come to the subject of urban rehabilitation. But I think I can pass over this topic with that comment.

Part VI has to do with the insurance of construction loans. Just briefly, I don't know that the Government need do any more than it is already doing in that connection. Under section 207 of the National Housing Act the Government can insure construction loans. That takes care, it seems to me, of the middle income group of tenants, and I don't know that that ought to be expanded any further. When we get into the low-income groups that I have been talking about, we have other problems, some of which I have touched upon, and I will touch upon those a little further on in my paper.

The seventh question had to do with the relation of housing agencies to the general credit policy of the Government.

All I have to say about that is that the home-loan banks and the Federal Housing Administration certainly can and do influence the extension of credit in the housing field, and it would seem to me to be logical and sensible that those agencies, through this coordinator, the need for which I have already indicated—it would seem to me that that influence ought to be tied into the general credit policies of the Government. I don't think it ought to be left out at loose ends to one side. I think that is particularly important when you are threatened with inflation as we are now, and I think it is important if, later on, we should have a deflation staring us in the face.

So I do think that there should be a tie-in between the credit policies of these housing agencies and the general credit policy of the Government.

Now we come to the eighth subject, the effect of veterans' loans on the housing picture.

When the war is over, we may find 11 or 12 million veterans in our midst. Many of these veterans will require housing, and many of them who are not home owners will desire to become home owners. If they act as a group, they will have a most important influence upon all phases of the economic and political life of this country. Their views with respect to housing matters will carry tremendous weight. It is important that those views be enlightened and not merely selfish. It is important that they understand that to the extent that Government is called upon to underwrite special treatment for them in the housing field, the cost of that special treatment will in large measure, in the last analysis, be borne by them.

The debt which the citizens owe the veterans is one that can never be repaid in an economic sense, and I doubt that the veterans expect any considerable repayment in that sense. They are a good cross section of our people, and they know that if the American system of private enterprise is to continue, there is a limit to the burden that may be imposed upon the general economy in defraying the cost of subsidies and other special privileges that may be granted by Government to special groups of citizens.

Senator TAFT. Furthermore, of course, they will have to pay that burden themselves, practically.

Mr. SCHWULST. That is exactly the point I am making.

Senator TAFT. They will make up such a large part of the population, representing practically every family in the United States.

Mr. SCHWULST. That is right, when you figure that their families and dependents are going to constitute a very large part of the productive and tax-paying population of this country within a few years after the war is over.

The G. I. bill of rights and the regulations of the Veterans' Administration have fixed at 4 percent the interest rate that may be charged on loans to veterans guaranteed by the Veterans' Administration. The effect of fixing the rate at this figure upon mortgage interest rates generally remains to be seen.

If I may just put in a remark here, I think that effect is going to be one of influencing the general mortgage rate downward; it is going to be another influence added to the general plentitude of money through definite financing that has been exerting a pressure on interest rates steadily for the past several years. But I don't know what the effect is going to be. That would seem to me to be just another influence in that direction.

I have no doubt that lending institutions are going to try wholeheartedly to make every mortgage loan that it is in the interest of the veteran himself to incur. With money as plentiful as it is today and with the general level of interest rates where it is today, I am confident that the lending institutions, certainly in my section of the country, will make funds available on sound loans guaranteed by the Veterans' Administration at the rate fixed in the law and in the regulations, but, from what I have said before, this rate will leave little, if any, margin after the lending institutions pay their expenses and pay the prevailing modest rates of return on the money left them by their depositors and members.

Now I come to the last subject, gentlemen, and I regret that this subject is perhaps not one of such general interest throughout the country as it is to us in the urban centers, but I hope you will bear with me while I go over this subject, because it is of vital interest to us in the urban centers, and we do pay a lot of taxes and we hope that you and your colleagues, when the time comes to enact legislation, will give such consideration as may be due to what is said on this topic.

The topic, as a matter of fact, has to do with rural housing as well as urban rehabilitation, but I am not competent to talk about rural housing and therefore I shall confine my remarks to urban rehabilitation, on this topic, that is, to the clearance of blighted areas and the construction therein of housing developments.

The Bowery Savings Bank, along with other financial institutions in New York City, has been giving a good deal of thought to this matter. Enough has already been brought to the attention of this committee to establish the importance of revitalizing slum areas. References already have been made to the fact that the laws of New York State permit insurance companies and savings banks, either directly or through the medium of housing companies, to own housing developments outright. A few of the life insurance companies have acted and are proposing to act under these powers. The savings banks have made loans to some of these housing developments but they do not have quite the same latitude as the life insurance companies. However, they are attempting to obtain from the New York Legislature approximately the same powers through having the Institutional Securities Corporation, a mortgage company which they own, author-

ized to engage in housing undertakings in blighted areas through the sale of its securities to the savings banks. Some of the savings banks would like to have, under proper limitations and safeguards, the same powers conferred upon them as are now enjoyed by the life insurance companies so that they may operate directly in this field in the same manner as those companies, and it is possible that the Legislature may in time grant that authority. In fact, a bill has just been introduced in the New York State Legislature, with the approval of the New York State Banking Department, which would give the savings banks that power. Whether it will be passed or not, of course, I don't know.

Wholly aside from what the savings banks may now legally do or may in the future be permitted directly or indirectly to do in this field, there are certain economic considerations involved with respect to slum-clearance housing in New York City which may be of interest to this committee.

Of course I can only talk about New York City, but I should imagine that perhaps the same economic factors that I am now going to call to your attention in New York City, would pertain generally in the larger urban communities of the country.

Land cost in the blighted areas of New York City are high. If those areas are to be used for the construction of housing to be rented to tenants in the middle and particularly in the low income classifications, such housing developments should be on a sufficiently large scale to assure their not being swallowed up by the surrounding slums. This would involve the accumulation of land in substantial tracts. This can only be done through condemnation, and condemnation usually involves paying approximately the assessed value for the land and old improvements thereon. While the assessed values have been coming down, they have by no means reached the point of the land's actual economic value for housing development purposes. The State law recognizes this fact by providing that redevelopment or housing companies may enjoy the benefit for a determined number of years of tax exemption on the new improvements placed on the land. This is, of course, a form of subsidy.

The question naturally arises as to whether the city could not lower the assessed values in these areas to bring them more in line with economic values, but we are advised by counsel that there are serious legal obstacles in the way of the city's singling out a specific area and reducing the assessed values there as against other areas.

Senator BUCK. What are the factors that keep the value of property like that up?

Mr. SCHWULST. Well, the principal factor, Senator, is that in the years prior to the stoppage of immigration—let's say prior to 1921 or 1922 or 1923, somewhere around there—there was a constantly expanding population in New York City and an increasing population, and an intensive pressure, you might say, on the land. The city had greatly to expand its plant, that is to say, it had to extend its subway system, it had to build more schools and more hospitals, and hire more policemen and more firemen and all that kind of thing, and that plant cost a great deal of money, and that plant is still there. But the city, to pay for that plant, had of course to depend upon real-estate taxes, which is the principal source of income of the city——

Senator BUCK (interposing). Well, it is really a fictitious figure, then. If you had to go out and sell it would not sell for the assessed value?

Mr. SCHWULST. You couldn't sell it now for the assessed value. Now that the pressure has come off the land, and the population is decentralizing, getting away from the center of the city, rents have come down drastically in those areas, but the city can't drop the assessed value—it has been dropping it some but it can't come down too rapidly, because they would go broke, and they have got to keep the assessed value up in order to collect sufficient taxes to keep going. That is the long and short of it in so many words. However, they are bringing that assessment down gradually, but it is a long, long way from reaching the economic value of that property, if you are going to build new housing on it.

Even with the indirect subsidy now authorized by State law, housing companies find it impossible to build acceptable housing in these areas to rent for much less on the average than $15 per room per month, which means from $50 to $60 per month for an average size apartment. A family should have an annual income of at least $200 a month, or $2,400 a year, to be able to rent one of these apartments.

This assumes that the density of population in the area would still remain fairly high, even if you built this new housing there. In one of the areas which the Bowery Savings Bank has been studying closely, the density would have to be in the neighborhood of 400 persons per acre, which is slightly in excess of the density already there.

Under the foregoing conditions, the housing company—and let me say just a word about these housing companies. You build these things through housing companies and under existing State law the life insurance companies and the savings banks can own those companies. They can own the securities, the bonds, the mortgages, and even the stock. So that is the way the institutions would get into the field, but they would do it through the device of the housing company.

Continuing—under the foregoing conditions, the housing company could expect to earn on the cost of the development only between 6 and 7 percent; that is, on total cost after paying such operating expenses and such real-estate taxes as would have to be paid which, after allowing a return of 4 percent in the form of interest on the investment, would leave only between 2 and 3 percent available for income taxes—these housing companies would have to pay income taxes—and the amortization of the investment. There would be slight, if any, cushion for reserves against contingencies.

It would seem to be clear from the foregoing statements that the housing companies would be confined in their endeavors to the provision of housing for the middle-income groups. This would involve a considerable displacement of existing population in the blighted areas because most of the families now living in those areas earn less than $2,400 a year, and it is these families which constitute the major portion of the rent-paying population of the city.

You might be interested in a few figures on that. The island of Manhattan contains about 2,700 acres. According to the city planning commission 14 percent of the area of Manhattan Island is blighted area. Now that 14 percent of the total area of Manhattan is equal to about 30 percent of that part of Manhattan Island which is devoted to residential uses. So you can see that a very considerable portion of Manhattan Island is already officially designated as blighted.

Now, according to the 1940 census, there were about 545,000 rent-paying families on the island, living on the island of Manhattan. About 60 percent of those families were paying less than $40 per month for their living accommodations; about 40 percent of those families were paying less than $30 per month for their living accomodations. Now I have just shown you here where, even with real estate tax exemption on the new improvements, if new housing is built in those areas, still maintaining high densities, and counting on an over-all throw-off of only between 6 and 7 percent on the investment, that we would still have to get in the neighborhood of $50 or $60 per month per family in order to get into this field.

Senator Taft. Suppose a similar development in a section that is undeveloped, or where the land is equally cheap?

Mr. Schwulst. You can go on the outskirts, of course.

Senator Taft. How much would that bring down the $50 or $60 in such an area?

Mr. Schwulst. There have been some 10 or 11 limited dividend housing projects built in the city of New York in the last 15 or 20 years, I believe, and they are renting under the limited dividend housing law at from $11 to $12.50 per month per room. That is much cheaper than what I have said. However, with one exception those projects have been built on cheap land; they have been built on the outskirts of the city. They haven't been built in the slum areas. But one of them was built in a slum area, and that was Knickerbocker Village, originally financed by the R. F. C.

Senator Taft. I don't want that; what I am trying to get is a comparison between the ones built on cheap land. They rented at between $11 to $12.50 per month, per room?

Mr. Schwulst. Yes.

Senator Taft. That makes how much per apartment?

Mr. Schwulst. I would say, for a 3½ or 4 room apartment that it would be around $35 to $40, somewhere around there.

Senator Taft. That is about $20 a month cheaper than those built on expensive land. Can you attribute to the cost of the land the difference of $20 per apartment per month?

Mr. Schwulst. Well, the land has a good deal to do with it, but of course construction costs have gone up too, construction costs are an important factor in this thing, and in the studies we have made we have allowed for some increase in construction costs over what they were back in the earlier days.

Senator Taft. If we subsidized up to the difference in the cost of the land, how far down would that get these costs?

Mr. Schwulst. When you get into the question of subsidy I don't think that you can base it on trying to make up the difference between the uneconomic cost of that land, if you take it in at assessed values, as you would have to do now, and the true economic value of that land.

Senator Taft. That is what all these urban redevelopment bills propose to do, just exactly that.

Mr. Schwulst. I am not so sure that that is going far enough. I think, with building costs what they are, with the building industry organized the way it is, that you are going to have to base your subsidy on some form of a minimum return guaranty from the housing project, which would pay a minimum assured rate of interest and

amortization on the investment cost of the project. I think you have got to look at it from that angle.

Senator TAFT. Well, I think you have to look at it that way also, but I was wondering about the possibility of separating out the subsidy required to eliminate the slums, so to speak, that is in buying land for more than it is worth and thereby eliminate the slums, from the subsidy required just for low-income housing?

Mr. SCHWULST. I think maybe this will be helpful to you in connection with that question. The Metropolitan Life Insurance Co. several years ago built a large development, without benefit of subsidy of any kind, in the Bronx. They bought a large tract of land from the Catholic Church, and they paid, as I remember, around a dollar a square foot for the land.

Now, this project that I have been talking about, and that we have been studying carefully, on Manhattan Island, has a land cost averaging around $5.50 per square foot.

This project up in the Bronx had a land cost to the Metropolitan, as I remember, of about a dollar a square foot. That was raw land and they had to equip it before putting the buildings on it, and I think that cost them another dollar or thereabouts a square foot. So the wound up with about $2 per square foot land, ready to build on.

Now, their density runs, if I remember correctly, somewhere around what our density would run in this project that I have been talking about, and that is a pretty heavy density.

They found that in order to get around 7 percent free and clear on their over-all cost—now this land, you understand, cost them less than half of what this land would cost us that I am talking about—that they would have to get around $14 per room per month, which is still higher than these low-income groups can pay. So that your land is not altogether the governing thing, although it is important. Parkchester has a density of a little more than I was talking about. The density I was talking about is about 400 persons per acre, and it runs around 500 persons per acre in the Parkchester project.

They have no subsidy, but by virtue of getting their land cost down to around $2 per square foot over-all, ready to build on, they were able to rent at about the same figure per room per month as we estimate we could rent for in Manhattan if we did get a subsidy represented by the exemption from taxation for a limited period, of the cost of the new improvements.

We estimate roughly, in this particular project, that that limited tax exemption would be worth somewhere around $2.50 to $3 per room per month in rent, which would make up that difference in land cost, roughly.

If I might come back to that, Senator, I would say that if you are going to get down to the $6, $7, or $8 per room per month rental category, for people in the income class that can pay only those rents, that whatever you feel this Government is called upon to do in the interest of public welfare, in helping do a job there—I don't think they can do the whole job by any means—I think you have got to base that subsidy on a return basis, a minimum return basis. If the project fails to earn that minimum return, that subsidy has got to make up the difference. I think that is the way you have got to look at it.

The modest return available on the investment of housing companies under the conditions stated, effectively precludes the ordinary private builder and owner from this field. It is a field, however, in which institutional investors may find a limited opportunity as they become educated up to it and as the remaining legal impediments are cleared away.

Because of the small margin on which housing companies venturing into this middle rental field would have to operate, the Federal and State Governments, as an encouragement to them, might consider making somewhat more liberal provisions regarding the exemption from income taxation of deductions on account of depreciation, so that the companies would have better protection against contingencies and a better assurance of the return of their capital investment during the reasonable economic life of the projects.

Our studies would seem to indicate that so long as land costs in blighted areas in New York City, and construction costs, are as high as they are, even institutional investors who would be content with a modest return on their investment cannot do a great deal in the way of clearing those areas and building properly planned neighborhood developments in them. The principal reason is that they can reach only a limited market. The mass market, the market which constitutes the bulk of the present inhabitants of those areas, cannot pay rents high enough to earn even the modest economic return indicated on the institutional investment.

But to the extent that there is a market for such housing as institutions can economically build, those institutions should be encouraged to build it. The tenants in the middle income classes are an important element in the community. They are now progressively leaving the present residential sections of the city and are moving to suburban areas. It would mean a great economy for the city if these people could be kept within the city and in those areas already provided with utilities, streets, schools, police and fire protection, and so forth, which must be duplicated in the new areas to which those people are moving.

But we still would not be providing decent housing in the slum areas for the people already living there and earning incomes below the level which will permit them to pay rent for such new housing as private enterprise would seem able to build. To provide these people with decent housing will entail the extensive modernization of such existing improvements in the blighted areas as may properly be salvaged, and the construction of much new housing. Private enterprise should be encouraged to engage in this field, but up to the present t me it can do so apparently only with extensive assistance from government—Federal, State, and local. This may well be a field in which the device of yield insurance can be used.

I have got a little different idea about yield insurance from what is commonly talked about. What I am thinking about—I have already mentioned this just a moment ago—is this field, the so-called uneconomic field, the public welfare field, if you please, and I think that private enterprise ought to do that job to the extent that it can be done gradually over a long period of time, and it will have to be aided by subsidy. Now, I think that subsidy should take the form of a guaranty of a return on the investment which the net income from the operations of the housing project itself will not provide. That is what I mean by yield—guaranteed income, plus the reasonable

amortization of the cost of that project over a long period of time, say 50 years or longer, depending upon what kind of construction you have.

Now, I want to make one other statement. It seems to me that the Federal Government ought not to be looked to to do this whole job, or even the lion's share of it. I think the States and the local governmental bodies, the municipalities, should be tied into this thing, and should be made to put up a substantial part of any subsidy that is required, because after all the baby is on their doorstep and they ought to be the ones to look after it, or at least decide whether it is a baby they want to adopt or not.

Now, there is just one other remark I would like to interpolate at this point so far as New York City is concerned, and that is this, that it is possible that if the city administration were called upon to help out in subsidizing this type of housing, along with the Federal Government and the State of New York, that they might be able to appeal to the riders of the subways there to pay a more economic fare, and the saving resulting from that might be very helpful in defraying a part of this subsidy for the provision of decent housing in the slum areas. I just throw that out as a suggestion.

It is to be hoped that if the Federal Government determines that it is in the public interest for it to assist private enterprise in this field, such assistance will be rendered as largely as possible through the F. H. A. or through some agency like it. The F. H. A. has been exceptionally well administered, and it has earned the confidence of private investors throughout the country. It has proven itself capable also of protecting the interests of the taxpayer. It has been notably free of pursuing will-o'-the-wisps. I think it could be counted upon to withstand the pressures that would be brought to bear upon it by people who do not realize that there are limitations to what even the Federal Government may sensibly do in underwriting the activities of its citizens and who have little or no understanding of, or regard for, the economic or even the social soundness of many of the proposals which they bring forth.

I am sorry I have taken so much of your time and I want to thank you for your patience.

Senator TAFT. We appreciate very much your suggestions; they have been very helpful.

Mr. SCHWULST. Thank you.

Senator TAFT. I am afraid that we will have to adjourn at this time. I know that there are some others who wanted to be heard, but I am afraid we will have to recess now. We hope to have one or two hearings in February, perhaps around the second week in February. Also, Mr. Klutznick, of the Federal Public Housing Authority, has requested permission to file as part of the record a further statement from the Federal Public Housing Authority, showing the result of a new survey of incomes of persons living in Public Housing projects. His figures before related to those admitted to Public Housing projects, and these figures are more complete on the question as to the incomes of all of those living in the projects. That permission will be granted.

The committee will now recess, subject to the call of the chairman.

(Whereupon, at 3:35 p. m., the committee recessed, subject to the call of the chairman.)

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